BAKKAVÖR

BRINGING THE BEST TO THE TABLE

ANNUAL REPORT & ACCOUNTS 2015

WE CREATE FRESH PREPARED FOODS IN PARTNERSHIP WITH OUR WORLD-LEADING RETAIL AND FOODSERVICE CUSTOMERS. WE ARE ONE OF THE LARGEST INTERNATIONAL FOOD MANUFACTURERS IN THIS FAST-MOVING AND EXCITING SECTOR.

WE PRIDE OURSELVES ON DRIVING INDUSTRY-LEADING STANDARDS IN SAFETY, QUALITY, SERVICE AND INNOVATION.

Asda SunBlush® Tomato & Mozzarella Flatbreads made by Bakkavor Bread in Crewe, Cheshire.

DOWNLOAD A COPY OF OUR COMPANY BROCHURE ONLINE

WHAT'S IN THIS REPORT

STRATEGIC REPORT

WHO WE ARE

Bakkavor at a glance 04
Our products 06
Chairman's report 08
Year in review 09

OUR STRATEGIC FOCUS

Our business model 12
Our market 14
Our strategy and KPIs 16
Our key risks 18

OUR BUSINESS REVIEW

Chief Executive's review 22
UK business review 24
International business review 25
Financial review 26
Our responsibilities 32

GOVERNANCE

HOW WE RUN OUR BUSINESS

Management Board 40
Governance 42
Directors' report 44

FINANCIALS

KEY FIGURES 2015

£1,675m

STATUTORY REVENUE

+1.6%

LIKE-FOR-LIKE REVENUE[1] KPI

£92.6m

FREE CASH FLOW[3] KPI

Independent auditor's report 46
Consolidated income statement 47
Consolidated statement of comprehensive income and expense 48
Consolidated statement of financial position 49
Consolidated statement of changes in equity 50
Consolidated statement of cash flows 51
Notes to the consolidated financial statements 52
Company income statement 89
Company statement of changes in equity 89
Company statement of financial position 90
Company statement of cash flows 91
Notes to the company financial statements 92
Company information 97

Footnotes relating to key measures used throughout this year's Annual Report and Accounts are detailed on pages 4 and 26.

KPI Our Group KPIs are indicated by this symbol and can be found on page 17.

BAKKAVOR AT A GLANCE

WE HAVE 47 WORLD-CLASS FACILITIES ACROSS 32 SITES IN FIVE COUNTRIES, MAKING FRESH PREPARED FOODS FOR MAJOR GLOBAL GROCERY RETAILERS AND WELL-KNOWN INTERNATIONAL FOODSERVICE CUSTOMERS.

OUR SITES

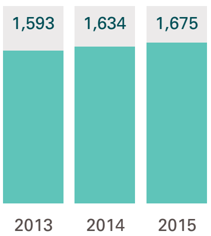
REVENUE BY DIVISION

91% UK

9% INTERNATIONAL

GROUP FIGURES

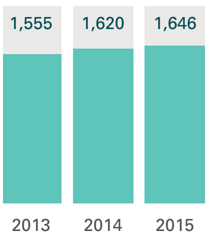
STATUTORY REVENUE
£m



+2.5%

£1,675 MILLION
(2014: £1,634 MILLION)

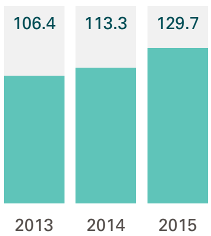
LIKE-FOR-LIKE REVENUE[1]
£m KPI



+1.6%

£1,646 MILLION
(2014: £1,620 MILLION)

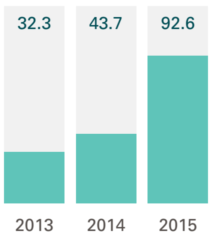
ADJUSTED EBITDA[2]
£m KPI



+14.5%

£129.7 MILLION
(2014: £113.3 MILLION)

FREE CASH FLOW[3]
£m KPI



+111.9%

£92.6 MILLION
(2014: £43.7 MILLION)

Throughout this report, the results for 2014 have been restated to exclude Italpizza as this is now classified as a discontinued operation following the completion of the sale of this business in July 2015.

1 Like-for-like revenue excludes the impact of acquisitions, disposals, closures and foreign exchange translation but includes the Group's share of revenue generated by associates.

2 Adjusted EBITDA – The Group manages the performance of its businesses through the use of 'Adjusted EBITDA'. EBITDA is generally defined as operating profit/loss before share of results of associates, depreciation, amortisation and asset impairments. In calculating Adjusted EBITDA, we further exclude restructuring costs and royalty charges. Adjusted EBITDA margin is calculated as Adjusted EBITDA divided by total revenue from continuing operations.

3 Free cash flow is defined as the amount of cash generated by the business from continuing and discontinued operations, after meeting all its obligations for interest, tax and pensions, and after investments in tangible assets but excluding payments relating to historic UK tax liabilities.

UNITED KINGDOM

LEADER IN THE MOST ADVANCED AND INNOVATIVE FRESH PREPARED FOODS MARKET IN THE WORLD.

- Over 45 years' experience of making own-label fresh prepared foods
- Strong, long-standing relationships with the UK's leading grocery retailers
- No.1 producer by value in 11 of our 16 product categories
- Quality and innovation recognised externally by numerous industry awards

page 24 for more information about our 2015 UK performance.

OUR KEY CUSTOMERS

TESCO, M&S, Sainsbury's, Waitrose, ASDA, MORRISONS, The co-operative

LIKE-FOR-LIKE REVENUE[1]

+0.6%

£1,511 MILLION
(2014: £1,502 MILLION)

ADJUSTED EBITDA[2]

+£11.2m

£124.1 MILLION
(2014: £112.9 MILLION)

INTERNATIONAL

UNIQUE INTERNATIONAL FOOTPRINT FOCUSED ON HIGH GROWTH GEOGRAPHIES.

- Leading US fresh prepared foods own-label manufacturer
- National operator in China with six facilities close to Tier-1 cities
- Procurement and distribution hub in continental Europe
- Opportunities for further growth with new and existing customers, leveraging UK expertise

page 25 for more information about our 2015 International performance.

OUR KEY CUSTOMERS

KFC, Pizza Hut, Harris Teeter, Starbucks, PRET, COSTA, M&S, PIZZA EXPRESS, McDonald's, Cathay Pacific Catering Services

LIKE-FOR-LIKE REVENUE[1]

+14.3%

£134.8 MILLION
(2014: £117.9 MILLION)

ADJUSTED EBITDA[2]

+£5.2m

£5.6 MILLION
(2014: £0.4 MILLION)

OUR PRODUCTS

WE ARE THE LEADING PRODUCER OF OWN-LABEL FRESH PREPARED FOODS, COVERING 18 CATEGORIES. OUR MARKET LEADERSHIP ENABLES US TO BENEFIT FROM ECONOMIES OF SCALE.


SANDWICHES & SANDWICH WRAPS


READY MEALS


FRESH CUT FRUIT


FRESH CUT VEGETABLES


SAUCES


FRESH CUT SALADS


PIZZA


FRESH PRODUCE


SPECIALITY BREAD & BAKERY PRODUCTS

>200
NEW PRODUCT DEVELOPMENT EXPERTS

>33%
OF PRODUCTS RENEWED OR REFRESHED EACH YEAR

No.1
MARKET LEADER IN 11 OF OUR 16 UK CATEGORIES


DIPS


DRESSED SALADS & MEAL SALADS


DESSERTS & PASTRIES


MODERN DELI


FRUIT JUICES & SMOOTHIES


STIR FRIES


DRESSINGS


PASTA


SOUPS

>200m

READY MEALS MADE EVERY YEAR

900

SUPPLIERS MANAGED BY OUR INDUSTRY-LEADING PURCHASING TEAMS

24 hour

'JUST-IN-TIME' MODEL, MAKING AND DELIVERING FRESH PREPARED FOODS TO ORDER

CHAIRMAN'S REPORT

2015 WAS ANOTHER STRONG YEAR. WE EXPANDED OUR INTERNATIONAL PRESENCE IN TARGET GROWTH AREAS AND STRENGTHENED OUR OWNERSHIP STRUCTURE, INCREASING OUR ABILITY TO DRIVE FORWARD OUR LONG-TERM STRATEGY.

LYDUR GUDMUNDSSON
GROUP CHAIRMAN

2015 OVERVIEW AND 2016 UPDATE

This has been another successful year for the Group, with revenue growth underpinned by a strong performance in our International business and profitability growth achieved by focusing on cost and efficiency. We spent considerable time during the year working on the long-term ownership structure of the Group and in January 2016 we were delighted to welcome The Baupost Group to Bakkavor as our new partners. Furthermore, we have continued to strengthen the Group's financial position with a partial refinancing of our Senior Secured Notes 2018 in 2015, resulting in a reduction in interest costs. A further reduction will arise on the redemption of £75 million of the same notes early in 2016, funded from our cash reserves.

FINANCIAL AND OPERATIONAL OVERVIEW

Statutory revenue increased by 2.5% with like-for-like revenue up 1.6%. Productivity investments and volume gains drove efficiencies and resulted in an improved Adjusted EBITDA of £129.7 million, up 14.5% year on year, giving an Adjusted EBITDA margin improvement of 80 basis points. We generated £92.6 million of free cash from operating activities this year, allowing us once again to reduce operational net debt from £472.7 million to £398.6 million. Our leverage also continues to fall, and was below three times at the year end.

We continued to reshape our International operations in 2015, focusing on growing our market presence in the US and Asia. We sold the remaining 60% of our Italian pizza business and exited a low-margin prepared fruit business in the UK. As part of our growth strategy we announced the acquisition of B. Robert's Foods in the US and, building on our expertise in chilled food, we have opened our first pizza restaurant in the UK.

PEOPLE

We operate in an increasingly challenging trading environment and I would like to thank all our employees for their hard work, passion and loyalty to our business. We remain committed to training and developing our people for the long term as we know they are best placed to maintain our industry-leading standards. In October, we announced the departure of John Gorman, a long-serving member of the senior management team. We would like to thank John for his contribution over many years and welcome Ivan Clingan, formerly UK Managing Director of Fresh Convenience, to his new role as President and CEO in the US.

OUTLOOK AND NEW SHAREHOLDING

In 2016, the year of Bakkavor Group's 30th anniversary, we expect trading conditions to remain challenging, particularly due to intense retailer competition and increased input costs; but we remain highly confident in our long-term strategy for growth.

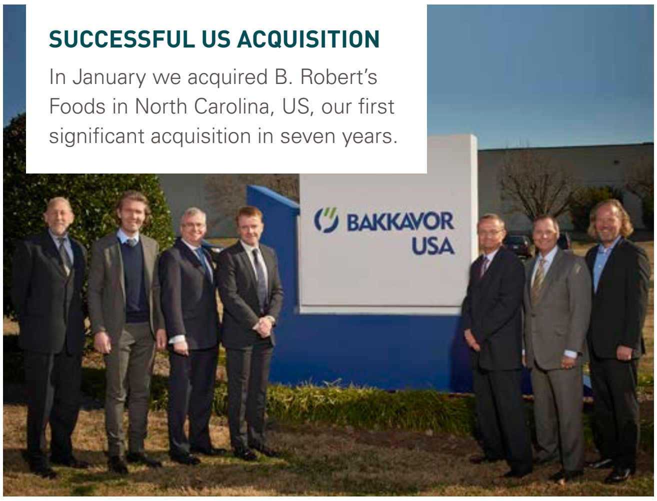
Our ability to implement this strategy was reinforced in January 2016, when we announced that Bakk AL Holdings Limited, a company owned by myself and my brother, Agust, and funds managed by The Baupost Group, L.L.C., had purchased approximately 89% of the outstanding shares in Bakkavor Group Limited. Our commitment to the business is as strong as ever. With a controlling interest in the Group we will both remain in our current roles and envisage no changes to day-to-day operations or to existing senior management. In due course we will announce our revised Group Board. The Baupost Group is globally recognised as a highly successful long-term investor and is supportive of our continued expansion plans and ambitions.

Lydur Gudmundsson
Group Chairman

24 February 2016

page 22 for more detail on our performance.

BAKKAVOR
CELEBRATING 30 YEARS



SUCCESSFUL US ACQUISITION

In January we acquired B. Robert's Foods in North Carolina, US, our first significant acquisition in seven years.

STRATEGIC DISPOSALS/ CLOSURES

We sold the remaining shares of Italpizza S.r.l. to Dreamfood S.r.l. in July and also exited from a low-margin fresh prepared fruit business in the UK.

OPENED FIRST PIZZA RESTAURANT

In November we opened 'Inferno' in Nottingham, in line with our strategy to target growth opportunities aligned to our core business.

SIX FOOD AWARDS

We had six winning products at two of the UK's most prestigious food awards – three at the Quality Food Awards and three at The Grocer Own-Label Food & Drink Awards.

2015 YEAR IN REVIEW

OWN-LABEL SUPPLIER OF THE YEAR AT THE GROCER GOLD AWARDS

Judged by The Grocer magazine and industry representatives in June, this award celebrates achievements in the grocery sector, with a specific focus on innovation and customer satisfaction.

THE GROCER GOLD AWARDS 2015 WINNER Own-Label Supplier of the Year

16TH YEAR OF OUR ACCELERATED MANAGEMENT SCHEME (AMS)

We took on 22 graduates this year, six of whom are on our new International scheme with placements in our strategic growth markets.

240

AMS GRADUATES RECRUITED SINCE SCHEME LAUNCHED IN 1999

M&S 'PLAN A' SUPPLIER GROUP OF THE YEAR AWARD

M&S presented this award to us in October for demonstrating clear leadership in sustainability, a commitment to delivering impactful sustainability outcomes and being an inspiration to other businesses in the sector.

PRINCE'S TRUST PARTNERSHIP

This was our first full year of a four-year commitment to working with The Prince's Trust. It included a series of visits to our sites for young people to help them learn about food manufacturing processes and roles.

Prince's Trust

LEADING THROUGH INNOVATION

OUR LEADERSHIP IN FRESH PREPARED FOODS COMES FROM A SIMPLE BUSINESS MODEL, UNDERPINNED BY OUR COMPETITIVE STRENGTHS AND A CLEAR STRATEGY FOR GROWTH.

Waitrose Aromatic Keralan Spiced Chicken Soup made at our Soups & Sauces factory in Spalding, Lincolnshire.

WE WORK ON STAYING AHEAD THROUGH PROMOTING A CULTURE OF INNOVATION AND FORGING LONG-TERM PARTNERSHIPS WITH OUR KEY CUSTOMERS.

The Group's Innovation Committee promotes a culture of innovation across all business disciplines, allowing us to move quickly to capitalise on latest product and process trends. Our operational structure encourages proactive collaboration with key customers and is reinforced through customer champions. This approach channels our extensive in-house skills effectively, helping us to defend and develop our market-leading position.

>50

DEVELOPMENT CHEFS AND FOOD PROCESS EXPERTS IN THE UK

Craig Sandle, one of our Senior Development Chefs, receives his trophy from Michel Roux for winning the 2015 GroceryAid Chef of the Year.

OUR BUSINESS MODEL

WE CREATE INNOVATIVE, HIGH-QUALITY PRODUCTS FOR OUR CUSTOMERS, WHICH GIVE CHOICE AND VALUE FOR MONEY FOR CONSUMERS. WE USE THE CASH GENERATED TO MEET OUR FINANCIAL OBLIGATIONS AND REINVEST FOR THE FUTURE.

THE BAKKAVOR DIFFERENCE

By focusing solely on the fast-moving fresh prepared foods sector and setting industry-leading standards for safety, quality, service and innovation, we believe the way we do business creates strong competitive advantages.

- **PARTNERSHIPS WITH LEADING GLOBAL RETAILERS**
- **COMMITTED AND ENGAGED EMPLOYEES**
- **EXPERIENCED MANAGEMENT BOARD**
- **WORLD-CLASS OPERATING FACILITIES**
- **LEADERSHIP IN FOOD SAFETY AND INTEGRITY**
- **PROVEN FINANCIAL DISCIPLINE**
- **BREADTH OF PRODUCT PORTFOLIO**

DEVELOPING INNOVATIVE PRODUCTS

- Uniquely focused on the fast-moving fresh prepared foods sector
- Building on our market-leading positions by staying at the forefront of relevant food and consumer trends
- Embedding and rewarding a culture of innovation

6 awards

FOR PRODUCT INNOVATION AND QUALITY IN OUR INDUSTRY

BUILDING PROGRESSIVE CUSTOMER RELATIONSHIPS

- Creating value for customers by offering premium quality and value for money
- Providing outstanding customer service
- Setting the food industry benchmark for safety, quality, service and innovation

5 awards

FROM OUR CUSTOMERS FOR OUR SERVICE AND QUALITY

FOCUSING ON EXCELLENT OPERATIONAL DELIVERY

- Reinvesting in continuous improvement throughout the business
- Developing centres of excellence, strengthening our core capabilities
- Recruiting, developing and rewarding the right people

>5,000

DIFFERENT PRODUCTS MADE ACROSS THE GROUP IN 2015

GENERATING STRONG CASH FLOW

- Ongoing focus on maintaining strict cost controls
- Using our global buying platforms to source quality ingredients at the right price
- Managing working capital effectively

£92.6m

OF FREE CASH GENERATED IN 2015

MAKING INVESTMENTS THAT MEET TARGETED RETURNS

- Maintaining a highly focused capital expenditure programme
- Emphasis on productivity investments in 2015
- Reducing leverage and net debt to further strengthen our capital structure

<3 times

LEVERAGE AT THE END OF 2015

OUR MARKET

WE USE OUR UNDERSTANDING OF MARKET DYNAMICS TO DEVELOP THE RIGHT PRODUCTS FOR OUR CUSTOMERS AND THEIR CONSUMERS AND TO SHAPE OUR LONG-TERM STRATEGIC FOCUS.

RETAIL TRENDS

- Own-label food ranges used as key strategic tools to differentiate retailer corporate brand values
- Fresh prepared foods remain a priority area to showcase innovation
- Ongoing online investment to enable personalised food ordering, shopping and delivery choices
- Continued roll-out of convenience stores in high-density areas to meet demand for smaller, top-up shops
- Discounters increasing their share of the UK grocery market with new high street locations and 'no frills' shopping

CONSUMER TRENDS

- Value for money mind-set entrenched, but quality remains a priority
- Continued strong demand for convenient, simple, time-saving meal solutions as part of modern-day lifestyles and flexible eating patterns
- Increasing confidence to try new foods and experiment with authentic ingredients
- Increased awareness of inherent natural health benefits of foods as well as food intolerances
- 'One size fits all' no longer acceptable as consumers look for products they can personalise

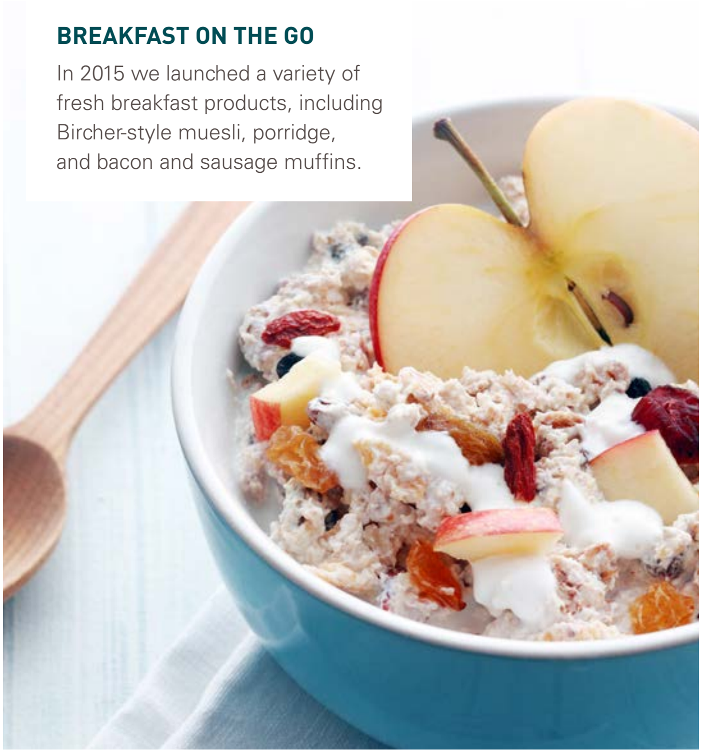
FOOD TRENDS

- Smaller pack sizes and snacking options fulfilling demand for flexible eating patterns and top-up shops
- Highly nutritious 'superfood' ingredients used more and marketed prominently
- More on-pack information to help consumers monitor personal health requirements
- More 'free from' ranges to support food intolerances
- Greater choice of exotic and authentic flavours and ingredients
- More 'pick and mix' meal choices available for eating at home and on the move

OUR FOUR STRATEGIC DRIVERS

1. TARGETING GROWTH OPPORTUNITIES
2. STRENGTHENING OUR CUSTOMER RELATIONSHIPS
3. DEVELOPING OUR PEOPLE TO DRIVE INDUSTRY-LEADING STANDARDS
4. INVESTING AND WORKING EFFICIENTLY

page 16 for more information about our strategy and progress.



BREAKFAST ON THE GO

In 2015 we launched a variety of fresh breakfast products, including Bircher-style muesli, porridge, and bacon and sausage muffins.

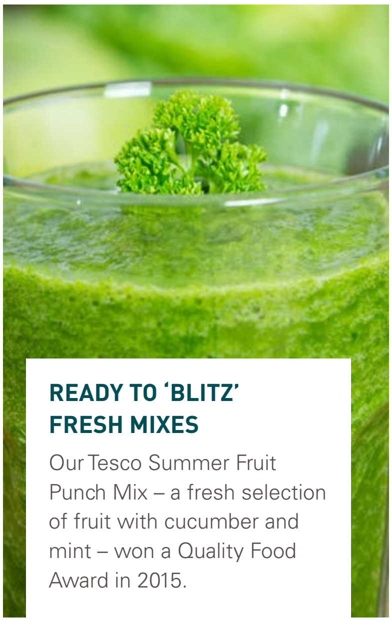
SUPER SEEDS & GRAINS

Today quinoa, black barley, bulgar wheat and buckwheat are fast becoming popular healthy ingredients and feature in many of our salad products.

TRENDY VEGETABLES

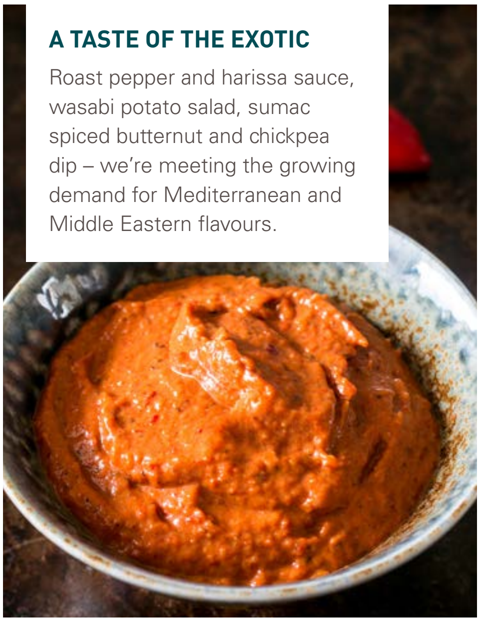
Our Garden of Innovation has enabled us to develop exciting and unusual produce for commercial use.

UNDERSTANDING MARKET TRENDS



READY TO 'BLITZ' FRESH MIXES

Our Tesco Summer Fruit Punch Mix – a fresh selection of fruit with cucumber and mint – won a Quality Food Award in 2015.



A TASTE OF THE EXOTIC

Roast pepper and harissa sauce, wasabi potato salad, sumac spiced butternut and chickpea dip – we're meeting the growing demand for Mediterranean and Middle Eastern flavours.

CUSTOMISED & FAST 'INFERNO' PIZZAS

Our new 'Inferno' restaurant gives diners the opportunity to create their own custom-made pizza. Picking from a wide range of fresh toppings, customers are able to see the pizza cooked and ready to eat in less than five minutes.

UK FRESH PREPARED FOODS MARKET

We are a market leader in the most developed and innovative fresh prepared foods market in the world.

£9.6bn

MARKET SIZE IN 2015
SOURCE: KANTAR WORLDPANEL

CHINESE FOODSERVICE MARKET

We operate in this market, which is forecast to grow by 11% CAGR 2014-2017.

>$68bn

FORECAST MARKET SIZE IN 2017
SOURCE: EUROMONITOR

US FRESH PREPARED FOODS

We are expanding our presence in this market, which is projected to outpace retail and foodservice food/beverage sales with 6-7% CAGR 2012-2017.

>$26bn

MARKET SIZE IN 2013
SOURCE: A.T. KEARNEY

OUR STRATEGY AND KPIs

OUR VISION IS TO BE RECOGNISED AND RESPECTED AS THE WORLD'S LEADING FRESH PREPARED FOODS PROVIDER, WITH FOUR CLEAR KEY STRATEGIC OBJECTIVES.

STRATEGIC PROGRESS

1

TARGETING GROWTH OPPORTUNITIES

Building on our leading positions in high-potential, fast-growing fresh prepared foods markets.

- Acquired B. Robert's Foods in North Carolina in January 2015 to extend our coverage across the US
- Extended healthy and 'food to go' ranges in response to consumer demand
- Opened first pizza restaurant in Nottingham, UK in November, capitalising on our experience in chilled pizza

2

STRENGTHENING OUR CUSTOMER RELATIONSHIPS

Leveraging our strong customer relationships to drive mutual and profitable growth.

- M&S 'Plan A' Supplier Group of the Year Award for sustainability leadership
- Tesco QVIS (Quality, Value, Innovation and Service) 'green' supplier scorecard
- Waitrose Product Innovation award for 'fantastic product development, customer insight and great collaborative work'

3

DEVELOPING OUR PEOPLE TO DRIVE INDUSTRY-LEADING STANDARDS

Setting the industry benchmark for safety, quality, service and innovation through the talent and commitment of our people.

- Employee engagement survey carried out, with results driving action plans in areas such as performance management and further career development
- Annual Innovation & Responsibility Awards to recognise employee-led initiatives that have made a positive difference to the success of the business and our local communities

4

INVESTING AND WORKING EFFICIENTLY

Delivering sustainable long-term growth through capital investment and a continued focus on efficiency.

- £38 million capital expenditure on projects including ready meals automation, desserts and salads capacity improvements and production upgrades
- Effective working capital management delivered £50 million cash inflow
- Profit delivery from productivity investments and volume gains drove further efficiency benefits with an Adjusted EBITDA increase of 14.5%

HOW WE STAY ON TRACK

Progress against our Group KPIs (detailed opposite) is reported to our Management Board at every monthly meeting.

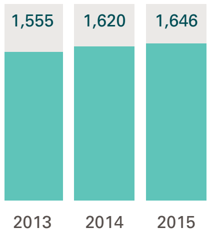
page 40 for more information about our Management Board.

page 43 for more information about the risk management responsibilities assigned to each Management Board member.

KPI **OUR KPIs** | **WHY WE USE THIS MEASURE** | **HOW WE HAVE PERFORMED**

LIKE-FOR-LIKE REVENUE[1]

£m KPI



+1.6%

£1,646 MILLION
(2014: £1,620 MILLION)

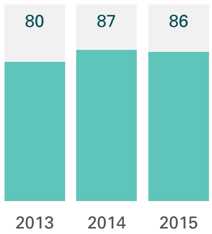
Growth in our like-for-like revenue shows our success at generating revenue through product innovation, effective promotional mechanisms and business wins.

1 2 We use this measure to monitor progress against strategic drivers 1 and 2.

- UK like-for-like revenue, whilst impacted by our exit from certain low-margin business, grew ahead of the UK food market, which declined by 0.2%*
- We continued to be a UK market leader in fresh prepared foods, holding No.1 or 2 positions across our 16 product categories
- Revenue in our International division was particularly strong, increasing by 14% on a like-for-like basis

EMPLOYEE RETENTION

% KPI



86%

OF EMPLOYEES RETAINED
(2014: 87%)

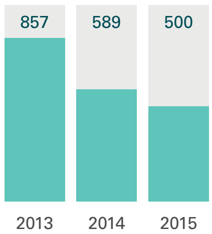
Retaining employees who have the right behavioural values, and having systems in place to ensure they can develop with us to the best of their potential, is fundamental to our success.

3 We use this measure to monitor progress against strategic driver 3.

- Our success at winning The Grocer Own-Label Supplier of the Year and other industry awards comes from having the right people in place who share our values and are passionate about what we do
- We were shortlisted for the IGD John Sainsbury Learning & Development award for our Recipes for Success management training programme
- We recruited 22 graduates and 12 apprentices onto our Group Schemes

LOST-TIME ACCIDENTS (+7 DAY RIDDOR**) PER 100,000 EMPLOYEES

KPI



40%

LOWER THAN INDUSTRY AVERAGE

We monitor our performance against the industry average as part of our commitment to take every reasonable step to protect the health & safety of our employees.

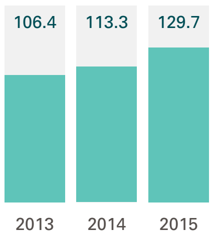
3 We use this measure to monitor progress against strategic driver 3.

The definition of lost-time accidents has been changed by the Health and Safety Executive (HSE) and we have therefore adopted this measurement as the appropriate Group KPI.

- We are very sad to report the death of a colleague from an accident at work in February 2015
- Compared to 2014, our total number of accidents reduced by 3% and our +7 day lost-time accidents reduced by 18%
- We continued to achieve lower accident rates than the HSE industry average with both lost-time and major accidents lower by 40% and 47% respectively

ADJUSTED EBITDA[2]

£m KPI



+14.5%

£129.7 MILLION
(2014: £113.3 MILLION)

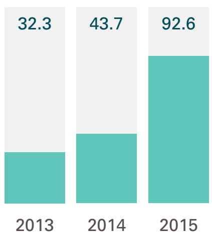
This measure demonstrates the Group's effectiveness in converting revenue into profitable growth.

4 We use this measure to monitor progress against strategic driver 4.

- Increase of 14.5% driven by productivity investments and volume gains
- Adjusted EBITDA margin improvement of 80 basis points following our exit from low-margin business
- Strong International growth from increase in consumer demand and successful integration of US acquisition

FREE CASH FLOW[3]

£m KPI



+111.9%

£92.6 MILLION
(2014: £43.7 MILLION)

The generation of free cash flow enables us to reinvest funds in the business for future growth and to pay down debt.

4 We use this measure to monitor progress against strategic driver 4.

- Excellent cash conversion with free cash increase of £48.9 million
- Continued focus on working capital management has delivered further benefits
- Capital expenditure focused on productivity and maintenance projects, after a number of major capacity investments in recent years

* Source: Kantar Worldpanel 52 weeks ending 3 January 2016.

** RIDDOR: Reporting of Injuries, Diseases and Dangerous Occurrences Regulations.

Financial footnotes referring to key measures are detailed on pages 4 and 26.

STRATEGIC REPORT

OUR KEY RISKS

THE SUCCESSFUL MANAGEMENT OF EIGHT KEY RISKS IS VITAL TO THE DAY-TO-DAY RUNNING OF OUR BUSINESS AND OUR ABILITY TO MEET OUR STRATEGIC GOALS.

OPERATIONAL RISKS

86%

OF EMPLOYEES RETAINED

KEY RISKS TO THE BUSINESS	WHAT MIGHT HAPPEN IF WE GET IT WRONG
FOOD SAFETY & INTEGRITY Millions of people eat our products every day. We have a duty to make food that is safe and is clearly and correctly labelled.	Consumer safety and confidence is vital to us; any issue that breaches that trust could also impact our industry's long-term prospects and our reputation.
HEALTH & SAFETY (H&S) AND ENVIRONMENT We understand our duty of care to secure and protect the H&S of our employees and to reduce the environmental impact of our operations.	The safety of our employees is paramount to our continued success and getting it wrong could carry significant reputational and legal risks.
LOSS OF KEY EMPLOYEES We have a highly experienced senior management team who are passionate about our business and who are integral to our continued growth and success as a market leader.	We risk being unable to achieve our strategic growth objectives without the recruitment, development and retention of talented and committed people who understand and respect our values.

MARKET RISKS

No.1

OWN-LABEL SUPPLIER OF THE YEAR

KEY RISKS TO THE BUSINESS	WHAT MIGHT HAPPEN IF WE GET IT WRONG
CUSTOMER RELATIONSHIPS We work with a small number of the largest food retailers and foodservice operators in the world.	Given the size and relatively small number of our customers, any major customer loss would have a significant negative impact on our revenue, manufacturing efficiency and profit.
CONSUMER UNDERSTANDING Our in-depth consumer understanding enables us to develop a diverse, innovative and commercially viable product range, which is critical to maintaining market leadership and future growth.	Investing in product areas which fail or underperform is costly in terms of resource and profitability, and can damage our reputation with our customers.
INPUT COST AND WAGE INFLATION The Group's cost base and margin can be affected by changes in the cost of labour, raw materials, packaging and energy.	Increases in raw material prices and labour costs adversely affect individual product margins. An inability to pass on these cost increases within a reasonable timeframe impacts the Group's profit and future investments.

FINANCIAL RISKS

£92.6m

FREE CASH GENERATED IN 2015

KEY RISKS TO THE BUSINESS	WHAT MIGHT HAPPEN IF WE GET IT WRONG
COVENANT COMPLIANCE We are subject to various financial covenants and undertakings as part of the Group's financing agreements.	To achieve our growth objectives, we require a strong financial platform. Breaching any covenant would destabilise the business and impair our ability to secure future financing.
INTEREST RATES, FOREIGN EXCHANGE RATES, LIQUIDITY & CREDIT In the multi-currency trading environment in which the Group operates, there are inherent risks associated with fluctuations in foreign exchange rates, interest rates and the availability of credit.	To achieve our growth objectives, we require a strong financial platform. An inability to access liquidity or a downgrading of the Group's credit rating could impact our ability to secure future financing.

HOW WE MITIGATE OUR RISKS	DEVELOPMENTS DURING 2015
• Hazard Analysis Critical Control Point (HACCP) principles used to identify and control food safety risks • Staff trained against documented procedures • Raw material suppliers audited and approved by food safety experts • Food safety controls regularly audited by internal and external parties. Emerging risks monitored by working with industry and regulatory bodies	• The Group continued to maintain and develop industry-leading food safety and traceability procedures • Group Responsible Sourcing Manager appointed in September 2015 to identify and mitigate sustainability risks in our supply chains
• Risk assessment principles used to identify and manage H&S and Environmental risks • H&S KPIs reported monthly to the Management Board • H&S and Environmental impacts are managed by our in-house experts who embed and monitor our practices • Culture of engagement from the Management Board through to the shop floor on accident prevention	• It was with the deepest regret that we reported the death of an employee from an accident at work in February 2015 • Compared to 2014, our total number of accidents reduced by 3% and our +7 day lost-time accidents reduced by 18% • We continued to provide training and share best practice to raise awareness and improve H&S performance
• Company values used to recruit, appraise, reward and develop employees • Succession planning, long-term management incentives, retention initiatives and a commitment to training	• Top 100 Company in The Job Crowd's top companies to work for • Over 75% of our 16,000 UK employees completed an employee engagement survey • Operational structures reviewed and revised to allow senior management progression
• Business Directors appointed as Customer Champions to manage strategic relationships and account planning • Communication with our customers at all levels of the decision-making process	• M&S 'Plan A' Supplier Group of the Year Award for sustainability leadership • Tesco QVIS (Quality, Value, Innovation and Service) 'green' supplier scorecard • Waitrose Product Innovation award for 'fantastic product development, customer insight and great collaborative work'
• Investment in market research to capture latest consumer trends • Market share performance and trends discussed at each Management Board meeting • Annual Innovation Awards held to celebrate success in product development, new processes and technology	• Six awards received for product innovation and quality • Launched Garden of Innovation to develop exciting and unusual produce for commercial use • Opened first pizza restaurant in Nottingham
• Central procurement team focuses on achieving balance between price, quality, availability and service levels • Forward purchasing agreed and price variations passed on where possible • Continued focus on cost reduction and productivity enhancements	• Active engagement at each site to address the introduction of the National Living Wage • Exited from low-margin business • Continued focus on cost reduction and productivity enhancements
• Financial results, projections and covenant performance reviewed regularly • Open and regular dialogue with our lenders and an active investor engagement programme	• Our leverage (the ratio of net debt to Adjusted EBITDA) was below 3 times at the year end • Significant improvement in covenant headroom • Redemption through refinancing of £140 million of Senior Secured Notes 2018 in April 2015
• Treasury function operates within framework of strict Board-approved policies and procedures (see note 30 to the Group financial statements) • Active foreign exchange hedging programme maintained • Majority of borrowings are at fixed interest rates	• Operational net debt down £74.1 million to £398.6 million at year end • Revolving credit and receivables financing facilities remain undrawn at year end

page 42 for more information about how we manage our risks.

MAINTAINING MOMENTUM

OUR PERFORMANCE IN 2015 REFLECTS OUR DISCIPLINED APPROACH TO INVESTMENT, OUR UNDERSTANDING OF TRADING PRESSURES AND OUR ABILITY TO MAKE THE RIGHT COMMERCIAL CHOICES FOR THE GROUP.

PERFORMING SUCCESSFULLY IN A CHALLENGING TRADING ENVIRONMENT.

In our intensely competitive market environment we remain focused on continuous improvement and maintaining our business momentum. We have a disciplined investment approach to both capacity utilisation and productivity benefits. Our operational strength and innovative culture enables us to develop new products quickly and maximise the opportunities arising from constant changes in consumer taste.

>45m

CUSTARD TARTS MADE IN 2015

Custard tarts are made at our chilled desserts facility in Newark, Nottinghamshire.

M&S Petite Patisserie selection made at our Bakkavor Desserts factory in Newark, Nottinghamshire.

CHIEF EXECUTIVE'S REVIEW

WE HAVE REPORTED AN EXCELLENT SET OF RESULTS. OUR OPERATIONAL STRENGTH AND NEW OWNERSHIP STRUCTURE MEAN WE ARE IDEALLY PLACED TO ACHIEVE OUR LONG-TERM OBJECTIVES.

AGUST GUDMUNDSSON
CHIEF EXECUTIVE OFFICER

OVERVIEW

I am very pleased that as we celebrate Bakkavor's 30th anniversary in 2016 we can report that the Group is in a very strong position. Against a background of challenging market conditions, we achieved good revenue growth, margin improvement, excellent cash conversion and a recovery in the performance of our International business. Early 2016 marked a turning point when we resolved historic issues with our ownership structure and welcomed The Baupost Group as our new long-term strategic partner. We also restructured our debt capital to reduce our cost of financing. With this stability we look forward to pursuing our long-term objectives with confidence.

STRATEGIC PROGRESS

We made excellent progress during the year, as we continued to reshape our International portfolio and focused on our core product categories. We exited a low-margin business in the UK, restructured our Belgian operation and grew volumes in Asia on the back of increasing customer demand. We also continued to build scale and geographic presence in the US with a major acquisition, our first in seven years.

MARKET CONDITIONS

In the UK, our largest market, overall consumer spending remained subdued. However, the fresh prepared foods sector grew faster than the overall grocery market, indicating a continued preference by consumers for quality, convenience and freshness. These trends are also becoming more evident in our targeted international markets and we will continue to focus on this exciting and dynamic sector of the food industry.

Intense retailer competition in the UK is here to stay, with discounters increasing their share of the grocery market and maintaining pressure on retail pricing. In such a competitive environment, our ability to develop own-label food ranges at pace is a core competitive strength, as our customers increasingly use our products to differentiate their corporate brand and showcase innovation. We continue to work closely with our customers and invest across the Group to further strengthen our operations, technical excellence and product innovation.

SERVICE, QUALITY AND INNOVATION

Across our business we extended our customer base and in the UK we have moved into two new growth areas. We opened a pizza restaurant and also partnered a British vegetable grower to create our Garden of Innovation, enabling us to introduce exciting and unusual produce into UK supermarkets. Initiatives such as these demonstrate the importance we place on innovation to drive growth and margin. We were also delighted to receive several industry and customer awards in recognition of our product innovation and quality, as well as for sustainability initiatives and customer service.

FOCUSED INVESTMENTS

Whilst our capital expenditure in the year was lower than in 2014, we remain firmly committed to investing behind our core categories and in 2015 key investments focused on productivity improvements, category expertise and maintenance. As we move through 2016 we already have a comprehensive investment plan in place to support key projects.

OUTLOOK

Against a background of challenging market conditions, the Group has, once again, reported an excellent set of results. We expect trading conditions to remain tough over the coming months due to pressures from the competitive retailer environment and rising labour costs. However, we remain confident about our future performance given our leading market positions, our culture of innovation and strong capital base.

Agust Gudmundsson
Chief Executive Officer

24 February 2016

UK HIGHLIGHTS

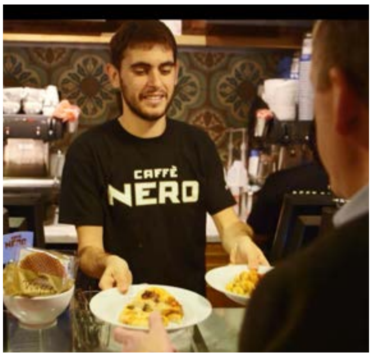
GARDEN OF INNOVATION LAUNCHED

"…a fantastic example of our forward-thinking food industry embracing new approaches to boost productivity and meet the global demand for delicious British produce."

Elizabeth Truss, Secretary of State at the Department for Environment, Food and Rural Affairs (DEFRA)

DEVELOPING NEW ROUTES TO MARKET

A dedicated team from our commercial, marketing, development and technical functions worked together on a new casual dining concept, resulting in the launch of a new range of products for Caffè Nero in September 2015.



INVESTMENT IN MEALS AUTOMATION

In 2015 we installed a new automated filling line at our Bakkavor Meals factory in Lincolnshire to meet promotional volume requirements. This investment has significantly improved factory efficiencies and capacity.

STRATEGIC REPORT

INTERNATIONAL HIGHLIGHTS

REMAINING 60% STAKE IN ITALPIZZA SOLD

The completion of our sale of Italpizza S.r.l. to Dreamfood S.r.l. in July marked an important strategic step to focus on core growth markets in the UK, US and Asia.

+£5.2m

ADJUSTED EBITDA[2] INCREASE IN 2015 FROM INTERNATIONAL SEGMENT

BAKKAVOR CHARLOTTE

The acquisition of B. Robert's Foods (now Bakkavor Charlotte) complements and strengthens our existing US business by providing access to an important new regional retailer on the East coast.

Financial footnotes referring to key measures are detailed on pages 4 and 26.

UNITED KINGDOM

WE WORK CLOSELY WITH OUR CUSTOMERS IN THE DEVELOPED UK MARKET TO SECURE OUR CATEGORY LEADERSHIP AND BUILD MARKET SHARE.

MARKET DYNAMICS

The fresh prepared foods market grew faster than the wider UK grocery market over the year as consumer spending, whilst remaining subdued, has reflected a preference for convenient, high-quality chilled foods. Whilst raw material price deflation was a factor throughout 2015, labour costs continued to accelerate and the forthcoming introduction of the National Living Wage in April will present a challenge for the UK food sector as a whole. We continue to work through the potential impact to the business and remain in active dialogue with all our stakeholders to mitigate costs wherever possible.

BUSINESS PERFORMANCE

Like-for-like revenue in our UK business in the 52 weeks to 26 December 2015 was £1,511.0 million (£1,519.0 million on a statutory basis), with underlying growth impacted by the ongoing deflationary environment and our exit from certain low-margin business.

The Adjusted EBITDA margin improvement of 80 basis points in the year reflected the benefits of our investment programme, ongoing cost control and exit from low-margin business.

CONTINUOUS INVESTMENT

Due to the rephasing of certain strategic projects our capital expenditure in the UK was lower than in 2014. Our focus remained on investing in maintenance, productivity and strengthening category expertise within our core categories. Projects included ready meals automation, desserts and salads capacity improvements and capability investments in bread and pizza.

INNOVATION

Innovation remains a key priority for the Group as we focus on ongoing growth and margin performance. We are therefore proud to have won a number of UK awards this year for product innovation, customer service and sustainability leadership from both the industry and our key customers.

Building on our experience in the chilled pizza market, we also opened our first pizza restaurant in Nottingham in November, which creates fresh, custom-made pizzas in less than five minutes. This personalised concept has proved successful with consumers and we are planning on rolling out this model in the coming months.

OUTLOOK

We are confident about our UK business given the positive market dynamics and our ongoing ability to invest. There will be pressure on growth as we continue to reshape our business and focus on rising labour costs. We will mitigate these pressures by continuing to drive productivity and control costs.

OVERVIEW

30

FACILITIES

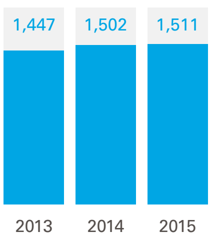
19

SITES

>16,000

EMPLOYEES

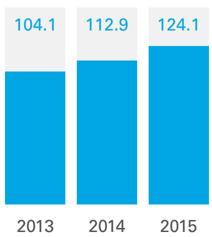
LIKE-FOR-LIKE REVENUE[1] £m



+0.6%

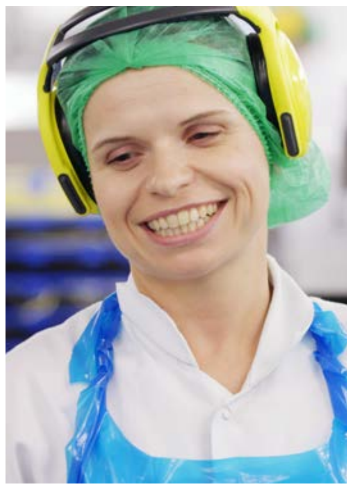
£1,511 MILLION
(2014: £1,502 MILLION)

ADJUSTED EBITDA[2] £m



+£11.2m

£124.1 MILLION
(2014: £112.9 MILLION)



OUR KEY CUSTOMERS

TESCO M&S Sainsbury's Waitrose ASDA MORRISONS The co-operative

Financial footnotes referring to key measures are detailed on pages 4 and 26.

INTERNATIONAL

WE ARE WELL POSITIONED TO BENEFIT FROM GROWTH IN FRESH PREPARED FOODS ACROSS THE US AND ASIA.

MARKET DYNAMICS

Strong consumer macro trends of convenience and health, underpinned by socio-economic and demographic factors, continue to support the growth of fresh prepared foods in these strategic regions.

BUSINESS PERFORMANCE

We have continued to reshape our International segment over the past year with the acquisition in January 2015 of B. Robert's Foods, a fresh prepared foods business in North Carolina. As a consequence, statutory revenue increased by 37% in the year. However, on a like-for-like basis, which excludes the impact of this acquisition, revenue still grew by 14%, largely supported by stronger performances in the US and Asia as we benefited from increased customer demand and geographic expansion.

Adjusted EBITDA margin improved significantly in the year, reflecting our increased customer base and scale of operations in both the US and Asia which in turn have driven efficiency benefits.

ASIA

In Asia, the business performed well following a challenging 2014 for our key customers. Revenue growth reflected improved pricing and increasing consumer demand across the Western-style foodservice sector. We have made further investments through 2015 to increase capacity and enhance technical capabilities, and the lift in volumes has driven efficiencies and improved margins. We continue to work closely with our customers to strengthen our position in this market and drive future profitability.

US

In the US, we have seen strong revenue growth as we have continued to build our scale with key customers over the past year. The purchase of B. Robert's Foods was the first acquisition for the Group in seven years and marked an important step in broadening our presence in this core strategic growth market. As a result of the acquisition, the Group widened its customer base by partnering with Harris Teeter to expand our product ranges and geographical reach.

OUTLOOK

We continue to believe in the significant growth potential of fresh prepared foods in our strategic chosen markets of the US and Asia, and will remain focused on maximising opportunities to grow in these regions.

OVERVIEW

17

FACILITIES

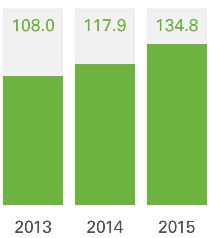
13

SITES

>2,000

EMPLOYEES

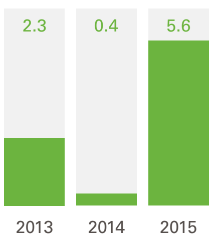
LIKE-FOR-LIKE REVENUE[1] £m



+14.3%

£134.8 MILLION
(2014: £117.9 MILLION)

ADJUSTED EBITDA[2] £m



+£5.2m

£5.6 MILLION
(2014: £0.4 MILLION)

OUR KEY CUSTOMERS

KFC, Pizza Hut, Harris Teeter, Starbucks, Pret, COSTA, M&S, PizzaExpress, McDonald's, Cathay Pacific Catering Services

FINANCIAL REVIEW

A STRONG TRADING YEAR WITH REVENUE GROWTH, MARGIN IMPROVEMENT AND A SIGNIFICANT REDUCTION TO NET DEBT AND LEVERAGE.

PETER GATES
CHIEF FINANCIAL OFFICER

DISCONTINUED OPERATIONS

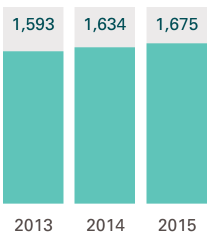
In July 2015 the Group completed the sale of its remaining 60% interest in Italpizza S.r.l. In 2015, this business generated a profit after tax to the Group for the period up to its sale of £13.5 million, including £10.4 million profit on disposal and £3.1 million from trading. In 2014 the business generated a profit after tax of £2.7 million for the full year. In accordance with IFRS this business has been classed as a discontinued operation and its results are therefore excluded from this Financial Review, with all references referring to Continuing Operations.

GROUP REVENUE

The Group reported a revenue of £1,674.5 million for the year ended 26 December 2015, an increase of 2.5% on the prior year. On a like-for-like basis, excluding acquisitions, sold and closed businesses and at constant currency, revenue growth was 1.6%, mainly due to strong growth from our International operations.

Our UK reported revenue was broadly flat at £1,519.0 million. UK revenue growth was limited as volume gains in our core categories were offset by price decreases as we passed on raw material deflation to our customers. UK revenue was also impacted by the closure of our Prepared Fruit business in June.

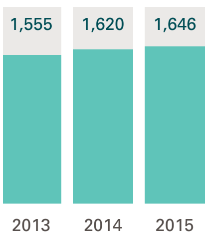
STATUTORY REVENUE £m



+2.5%

£1,675 MILLION
(2014: £1,634 MILLION)

LIKE-FOR-LIKE REVENUE[1] £m KPI



+1.6%

£1,646 MILLION
(2014: £1,620 MILLION)

£89.6m

OPERATING PROFIT

5.4%

OPERATING MARGIN

Throughout this report, the results for 2014 have been restated to exclude Italpizza as this is now classified as a discontinued operation following the completion of the sale of this business in July 2015.

1 Like-for-like revenue excludes the impact of acquisitions, disposals, closures and foreign exchange translation but includes the Group's share of revenue generated by associates.

2 Adjusted EBITDA – The Group manages the performance of its businesses through the use of 'Adjusted EBITDA'. EBITDA is generally defined as operating profit/loss before share of results of associates, depreciation, amortisation and asset impairments. In calculating Adjusted EBITDA, we further exclude restructuring costs and royalty charges. Adjusted EBITDA margin is calculated as Adjusted EBITDA divided by total revenue from continuing operations.

3 Free cash flow is defined as the amount of cash generated by the business from continuing and discontinued operations, after meeting all its obligations for interest, tax and pensions, and after investments in tangible assets but excluding payments relating to historic UK tax liabilities.

Reported revenue in our International segment increased by £42.1 million to £155.5 million, with particularly strong growth in our US and Asian businesses. The US business now includes B. Robert's Foods which has contributed £22.3 million of revenue since its acquisition in January 2015. On a like-for-like basis revenue growth was 14.3% with increased volume demand, new product roll-outs in Asia and the US, and improved pricing from core Asian customers.

GROSS PROFIT

The gross profit margin for 2015 was 28.0% compared to 26.8% in the prior year. The margin improvement reflects increased efficiencies at our facilities driven by volume growth as well as the benefits from productivity investments made during the current and previous year.

We have been able to pass back raw material deflation to our customers. However we have continued to see labour costs rising and we expect this trend to continue into next year with the introduction of the National Living Wage in April 2016.

DISTRIBUTION AND OTHER ADMINISTRATIVE COSTS

These costs have increased by 3.5% in the year to £379.8 million as we continued to invest to support product innovation and volume growth. The year-on-year increase was also attributable to rising labour costs and the inclusion of overheads relating to our newly acquired business in Charlotte in the US.

ADJUSTED EBITDA[2]

Adjusted EBITDA for the Group was £129.7 million, compared with £113.3 million in 2014, an increase of £16.4 million. As a result, our Adjusted EBITDA margin increased by 80 basis points from 6.9% to 7.7%. Increased volumes and productivity investments helped to support our margin, and the restructuring of our UK business during the prior year has been fundamental to reducing both cost and complexity throughout 2015.

RECONCILIATION TO ADJUSTED EBITDA[2]

£ million	FY 2015	FY 2014
Operating profit	**89.6**	62.3
Add/(deduct):		
Depreciation	**35.3**	34.8
Amortisation	**5.9**	8.1
Exceptional items (net)	**3.5**	6.6
Parent royalty charge	**1.2**	1.2
Impairment of assets	**–**	4.1
Loss/(profit) on disposal of property, plant and equipment	**0.2**	(1.0)
Profit on disposal of subsidiaries and associates	**(5.2)**	(1.8)
Share of results of associates after tax	**(0.8)**	(1.0)
Adjusted EBITDA[2]	**129.7**	113.3

For further analysis of the Group's adjusted EBITDA performance refer to our Business Review on pages 22 to 25.

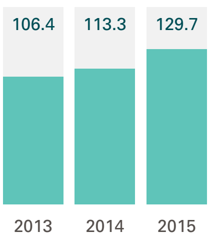
EXCEPTIONAL ITEMS

Exceptional items are those that, in management's judgement, should be disclosed by virtue of their nature or amount. Exceptional items comprised:

£ million	FY 2015	FY 2014
Restructuring costs	**(3.5)**	(6.6)
Total	**(3.5)**	(6.6)

Restructuring costs in the year, relating mainly to redundancy payments, comprise £1.1 million in respect of the closure of our UK Prepared Fruit business and £1.5 million for the restructuring of our Belgian operation. In addition, £0.9 million of costs were incurred following the decision by a major customer in the US to cease trading. Restructuring costs in the prior year were all in respect of our UK businesses.

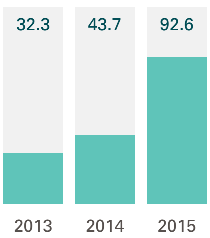
ADJUSTED EBITDA[2]
£m KPI



+14.5%

£129.7 MILLION
(2014: £113.3 MILLION)

FREE CASH FLOW[3]
£m KPI



+111.9%

£92.6 MILLION
(2014: £43.7 MILLION)

£398.6m

OPERATIONAL NET DEBT

£38.2m

CAPITAL EXPENDITURE

FINANCIAL REVIEW CONTINUED

IMPAIRMENT

The Group is required to assess the appropriateness of its goodwill and intangible asset carrying values on an annual basis by comparing the carrying values with future cash flows expected to be generated from those assets. The review has resulted in no impairment charges this year. In 2014 there was an impairment charge of £2.6 million for goodwill and £0.1 million for intangible assets due to the more difficult trading conditions across two of our UK businesses. A further impairment charge of £1.4 million was recognised in 2014 in respect of property, plant and equipment.

OPERATING PROFIT

Operating profit increased by £27.3 million to £89.6 million, representing an operating margin of 5.4%, 160 basis points ahead of the prior year or 130 basis points before an impairment charge of £4.1 million taken in 2014. The majority of this improvement was due to volume gains and productivity improvements.

FINANCING COSTS

Net finance costs increased from £53.0 million to £55.4 million in 2015 with the current year including £9.3 million of one-off costs as a result of the refinancing completed in April 2015. These costs comprise a £5.8 million call premium paid on the early redemption of £140 million of the Senior Secured Notes 2018 and £3.5 million of accelerated amortisation of fees relating to the previous financing structure. The early redemption was financed by an increase in the bank term loan of £140 million. However, as a result of the significant reduction in net debt during the year and the refinancing, underlying borrowing costs were lower than the prior year.

Other gains and losses represent mark-to-market movements on both the Group's remaining fixed rate interest swap, maturing in 2016, and foreign exchange forward contracts and options. The total also includes a £10.7 million gain for the mark-to-market value of the call option in the Senior Secured Notes 2020, as this is classified as an embedded derivative under IFRS.

CASH FLOW[3]

£ million	FY 2015	FY 2014
Adjusted EBITDA[2]	**129.7**	113.3
Adjusted EBITDA[2] from discontinued operations	**5.7**	6.6
Working capital	**50.1**	26.8
Pensions (cash and non-cash)	**(3.8)**	(3.8)
Interest paid	**(45.4)**	(49.0)
Tax paid	**(5.7)**	(1.0)
Capital expenditure (net)	**(38.0)**	(49.2)
Free cash generated from operating activities	**92.6**	43.7
Royalty payment	**(3.4)**	–
Cash impact of exceptional items	**(5.2)**	(5.8)
Acquisition of business	**(19.6)**	–
Disposal of subsidiary & associate net of cash disposed of	**26.5**	10.8
Refinancing costs	**(7.2)**	–
One-off tax payment in respect of historic liabilities	**(12.5)**	–
Cash before financing activities	**71.2**	48.7

Throughout this report, the results for 2014 have been restated to exclude Italpizza as this is now classified as a discontinued operation following the completion of the sale of this business in July 2015.

1 Like-for-like revenue excludes the impact of acquisitions, disposals, closures and foreign exchange translation but includes the Group's share of revenue generated by associates.

2 Adjusted EBITDA – The Group manages the performance of its businesses through the use of 'Adjusted EBITDA'. EBITDA is generally defined as operating profit/loss before share of results of associates, depreciation, amortisation and asset impairments. In calculating Adjusted EBITDA, we further exclude restructuring costs and royalty charges. Adjusted EBITDA margin is calculated as Adjusted EBITDA divided by total revenue from continuing operations.

3 Free cash flow is defined as the amount of cash generated by the business from continuing and discontinued operations, after meeting all its obligations for interest, tax and pensions, and after investments in tangible assets but excluding payments relating to historic UK tax liabilities.

TAX

The Group's tax charge was £8.8 million for 2015 (2014: £2.4 million). The higher tax charge is due to the increase in profit before tax to £49.2 million (2014: £11.2 million) and also due to the use of UK tax losses in 2014 which lowered the cost for that year.

CASH FLOW, NET DEBT AND LEVERAGE

Free cash generation improved by £48.9 million in the year to £92.6 million, following increased profitability, effective working capital management and lower interest payments after the refinancing in April 2015. The Group's improvement in cash generation was also driven by lower capital spend in the year as a number of significant investments during 2014 were brought on stream, and certain strategic projects were rephased. A further reduction in net debt of £34.2 million arose from the sale of Italpizza S.r.l. (including £7.7 million of debt held at the date of sale) and Manor Fresh Limited during the year. This reduction to net debt was partly offset by the payment of £12.5 million to settle historic UK tax liabilities, £19.6 million for the acquisition of B. Robert's Foods in January 2015 and £7.2 million of refinancing fees (including a call premium of £5.8 million paid on the early redemption of £140 million of Senior Secured Notes 2018).

Overall operational net debt reduced significantly by £74.1 million to £398.6 million. Leverage (the ratio of net debt to Adjusted EBITDA) was below 3.0 times at the year end, down from 3.9 times last year. The Group continues to operate with good headroom against all financial covenants and remains focused on further deleveraging.

For statutory reporting purposes, net debt was further reduced by the inclusion of an asset of £10.7 million for the fair value of the call option for the Senior Secured Notes 2020 as required by IFRS.

Our liquidity position remains strong with cash balances of £97.0 million at the year end and our revolving credit and receivables financing facilities were both undrawn. Since the year end we have given notice that we intend to redeem £75 million of the Senior Secured Notes 2018 on 29 February 2016 from cash reserves.

PENSIONS

Under the valuation principles that are required by IAS 19 to be used for accounting purposes, the Group recognised a deficit of £3.9 million for the UK defined benefit scheme as at 26 December 2015 (2014: surplus of £6.7 million). The deficit has arisen as the combination of the return from the scheme's assets and recovery contribution is more than offset by the reduction to the discount rate which has increased the scheme's liabilities.

The Group and the Trustee agreed during 2014 the triennial valuation of the UK defined benefit pension scheme as at 31 March 2013. This resulted in a funding shortfall which continues to be paid over a six-year period ending on 31 March 2020. The recovery contributions have been paid in accordance with the agreed plan and amounted to £4.5 million for the year.

Peter Gates
Chief Financial Officer

TAKING RESPONSIBILITY

WE RECOGNISE THAT OPERATING OUR BUSINESS IN A RESPONSIBLE WAY AND REWARDING OUR PEOPLE FOR UNDERSTANDING AND LIVING OUR VALUES IS ONE OF OUR KEY STRENGTHS.

Menu from Waitrose Wood-fired King Prawn & Chilli Pizza made at our Bakkavor Pizza factory in Harrow, Middlesex.

OUR ULTIMATE RESPONSIBILITY IS SAFETY – WE NEED TO ENSURE THAT OUR PRODUCTS ARE SAFE TO EAT AND THAT WE PROVIDE A SAFE WORKING ENVIRONMENT.

Millions of people around the world eat our products every day and thousands of employees, contractors and visitors come to our sites. In order to promote a proactive culture of safety and integrity we have robust systems and protocols in place and we train and develop our employees to enable them to do things the right way.

>450

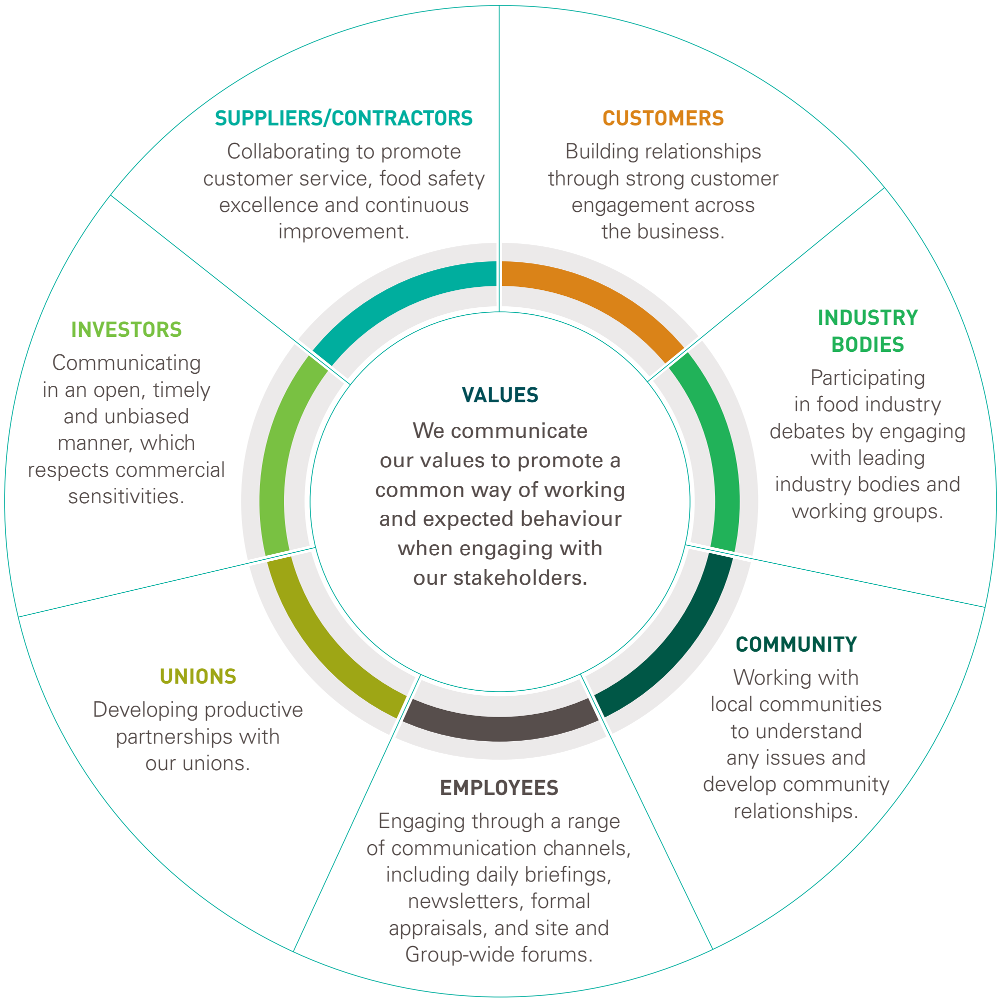
PEOPLE WORK IN OUR TECHNICAL TEAM

Our verification processes include laboratory testing, internal and external audits and management reviews.

OUR RESPONSIBILITIES

BY COMMUNICATING WITH OUR STAKEHOLDERS WE CAN UNDERSTAND BETTER WHAT WE DO WELL AND WHERE WE CAN IMPROVE FOR THE LONG-TERM GOOD OF THE BUSINESS.

OUR KEY STAKEHOLDERS



OUR VALUES

1 CUSTOMER CARE

We are committed to supplying outstanding service, quality and value, never forgetting that our relationship with our customers is key to our success.

2 CAN-DO ATTITUDE

We encourage personal initiative and empower our people to make things happen. Our motivation comes from a determination to succeed in all we do.

3 TEAMWORK

We believe everyone has a valuable part to play in the success of our business. We aim to communicate effectively and are committed to the highest standards of ethics and integrity.

4 INNOVATION

We thrive on new challenges, looking for innovative ways to grow and improve our business further.

5 GETTING IT RIGHT, KEEPING IT RIGHT

We strive to deliver the right results every time in the most effective way, providing value for our customers and stakeholders alike.

OUR ULTIMATE RESPONSIBILITY

We make fresh prepared foods which are eaten daily by millions of people around the world. We have an ultimate responsibility for safety, ensuring that our products are safe to eat and that we provide a safe working environment for all employees, contractors and visitors.

We must also respect the communities in which we operate, from both an environmental and a social standpoint, by addressing immediate concerns arising from our operations and looking after our employees, developing them for a long-term career within the Group.

TANGIBLE LONG-TERM BENEFITS

By doing these things well we believe wholeheartedly that we gain tangible business benefits. This helps us to set industry-leading standards and endorses our reputation in the industry which, in turn, encourages our key stakeholders to work with us. It allows us to attract and retain the best people in the industry – customers, employees and suppliers – and it creates goodwill among our local communities.

Finally, responsible behaviour encourages financial discipline. It helps us to understand and manage our key resources more efficiently and cost-effectively.

PRACTICAL, FOCUSED, VALUES-LED APPROACH

We have a focused approach to managing our responsibilities, concentrating our actions where we have direct control and, consequently, where we can make the most impact. Many of our focus areas are measured by Group KPIs and linked to our overall strategic progress. Members of our Management Board are tasked with monitoring and reporting on these at each monthly Management Board meeting.

Whilst we have a formal reporting structure in place, it is our culture of integrity and day-to-day behaviour that determines how we work. Our five values, listed opposite, are widely communicated across the Group and shape this behaviour, providing a framework that underpins our daily activities.

Given our deep-rooted culture of safety in everything we do, it is with the deepest regret that we report the death of an employee from an accident in the workplace in February 2015. Our thoughts remain with the deceased’s family, friends and work colleagues.

MANAGING OUR RESPONSIBILITIES

Management Board members are directly responsible for managing our five focus areas and KPIs are reported to the Management Board each month.

ANN SAVAGE, GROUP TECHNICAL DIRECTOR

FOOD SAFETY & INTEGRITY

HEALTH & SAFETY

OUR ENVIRONMENT

OUR FOCUS AREAS

OUR PEOPLE

COMMUNITIES

PIPPA GREENSLADE, GROUP HR DIRECTOR

OUR RESPONSIBILITIES CONTINUED

FOOD SAFETY AND INTEGRITY

WE ARE PROUD TO BE ENTRUSTED WITH PROTECTING THE INTEGRITY OF OUR CUSTOMERS' PRODUCTS.

INDUSTRY-LEADING TECHNICAL STANDARDS

Our Technical Team, led by Group Technical Director Ann Savage, consists of over 450 people who define standards and monitor compliance with our systems for ensuring food safety. These systems are HACCP*-based and implemented through documented quality management systems, ensuring we comply with all our legal and customer requirements. Our verification processes include laboratory testing, announced and unannounced internal and external audits and regular management reviews. Timely feedback of information from these processes into our quality management systems ensures prompt corrective and preventative action if required.

Our technical teams also work closely with our procurement and agronomy teams to ensure the integrity of our supply base.

Our Group Technical Director reviews the Group's food safety performance at each Management Board meeting and is responsible for managing the Group strategy in this area.

FOCUS AREAS

- Raw material integrity
- Consistent application of good practice in food safety management systems
- IT solutions to enhance our effective management of food safety and raw materials

Over 35 specialists work in our microbiology and chemistry laboratories.

BAKKAVOR PIZZA'S INNOVATIVE 'STEPBACK' H&S CAMPAIGN

At our Innovation Awards we presented our Bakkavor Pizza business with an award for implementing an effective way of promoting the importance of workplace safety. Its campaign encourages individuals to 'step back' from their daily work to identify potential hazards and risks, challenge existing controls and put forward their own solutions.

HEALTH & SAFETY

WE TAKE EVERY PRACTICAL STEP TO SECURE AND PROTECT THE HEALTH AND SAFETY OF OUR OWN EMPLOYEES AND PEOPLE WHO WORK AT OUR PREMISES.

EMPOWERING OUR EMPLOYEES

Our aim is to promote a proactive safety awareness and accident prevention culture by empowering our employees to do the right thing, raising risk awareness and supporting solutions to improve H&S performance. To facilitate this we provide relevant training and share best practice.

Our Health & Safety teams, led by the Group Technical Director, define standards and monitor compliance with our systems for ensuring workplace health and safety. These systems are risk-based and implemented through documented Health & Safety Management systems, ensuring we comply with all our legal responsibilities. They include a comprehensive compliance audit carried out by qualified experts, performance monitoring and reporting, and a well-established process for capturing and sharing good practice and learnings.

* Hazard Analysis Critical Control Point.

APPOINTMENT OF GROUP RESPONSIBLE SOURCING MANAGER

We recognise the need for consistent and resilient supply chains to underpin our future growth. To help us achieve this we have appointed a Group Responsible Sourcing Manager, who reports to the Group Technical Director, to work with our supply chain partners and customers.

Sustainability Award

M&S 'PLAN A' SUPPLIER GROUP OF THE YEAR AWARD FOR DEMONSTRATING CLEAR LEADERSHIP IN SUSTAINABILITY

ENVIRONMENT

WE MANAGE THE DIRECT IMPACTS OF OUR BUSINESSES ON THE ENVIRONMENT AND FOCUS ON THOSE AREAS THAT ARE MOST MATERIAL TO OUR OPERATIONS.

MANAGING RESOURCES EFFICIENTLY

We encourage environmental efficiency through a Group-wide focus on resource management, supported by our Group Environmental Policy. We have identified key areas where we can further reduce our environmental impacts: waste, water, energy efficiency and packaging.

We sent less than 0.5% of our UK waste to landfill in 2015 – our goal is zero waste to landfill.

We continue to trial, implement and scale up solutions to improve the energy efficiency of our key processes and buildings.

We focus our attention on our most water-intensive businesses and optimise our water efficiency by minimising usage and by treating and recovering waste water whenever possible.

We work with both our customers and suppliers to minimise packaging without compromising the integrity of ingredients and products.

FOCUS AREAS

- Ongoing commitment to improving resource efficiency
- Continue to eliminate waste from our operations and maximise recycling
- Continue to work closely with key customers, industry bodies and suppliers to develop and implement sustainable supply chain practices
- Continue to work with our employees and local communities to encourage sustainable practices and initiatives

STRATEGIC REPORT

Our Group Technical Director reviews H&S performance indicators, audit information and key initiatives at each Management Board meeting and is responsible for managing the Group strategy in this area.

Compared to 2014, our total number of accidents reduced by 3% and our lost-time accidents (+7 days) reduced by 18%.

We continued to achieve lower accident rates than the HSE industry average with both lost-time and major accidents lower by 40% and 47% respectively.

However, it was with the deepest regret and sadness that we reported the death of an employee from an accident in the workplace. We remain fully committed to reducing risk and driving our safety performance.

FOCUS AREAS

- Reducing the risk associated with workplace transport (people and vehicles).
- Continued focus on machinery safety
- Supporting the development of our accident prevention culture across the business

5 gold awards

RECEIVED FROM ROSPA** IN 2015 FOR OUR COMMITMENT TO CONTINUOUS IMPROVEMENT IN ACCIDENT AND ILL-HEALTH PREVENTION AT WORK

RoSPA 2015 GOLD Award

** Royal Society for the Prevention of Accidents.

OUR RESPONSIBILITIES CONTINUED

OUR PEOPLE

OUR PEOPLE STRATEGY INVOLVES ATTRACTING, RETAINING, SUPPORTING AND REWARDING OUR PEOPLE IN THE MOST EFFECTIVE WAY TO ACHIEVE THE GROUP'S STRATEGIC GOALS.

OUR APPROACH

Our Group HR Director, Pippa Greenslade, and her HR teams focus on four areas: talent management, learning and development, reward and engagement and digital HR, all of which are underpinned by robust compliance programmes.

OUR KEY ACTIVITIES IN 2015

Talent management: We advanced our talent pipeline through a range of early-career programmes, specifically designed for apprentices, graduates and young managers seeking international experience. This approach brings talented individuals into Bakkavor at an early stage, enabling them to develop as we grow.

Learning and development: We concentrated on improving supervisory, managerial and leadership skills within the business – key areas identified to support our future growth.

Reward and engagement: We continued to focus on making Bakkavor a great place to work. This involves measuring and rewarding our people on how they live our values and reviewing how we can be recognised as an employer of choice. More than 75% of our 16,000 UK colleagues completed an employee engagement survey and we are using the results to formulate action plans in 2016, in areas such as performance management and further career development opportunities.

Digital HR: We continued to strengthen our systems with all site training data now available online, freeing up time previously spent on administrative tasks.

FOCUS AREAS

- Ongoing talent and succession planning in core strategic areas
- Strengthening performance management and collaborative working
- Focused skills development across functions and rolling out an HR Academy
- Building HR systems skills and capabilities to streamline our HR management information

EXPANDING OPPORTUNITIES FOR GRADUATES

Our latest Accelerated Management Scheme graduates started their first placements in September 2015, with new opportunities in marketing and overseas.

240 graduates

HAVE JOINED OUR GROUP SCHEME SINCE 1999

COMMUNITIES

WE WORK WITH OUR COMMUNITIES TO UNDERSTAND THEIR NEEDS AND CONCERNS.

LOCAL IMPACT

We believe our local business teams are best placed to understand the needs of their communities and support local causes and initiatives. We recognise, reward and celebrate community engagement through our annual Group Responsibility Awards and by communicating achievements internally and externally.

We also support relevant national campaigns, such as IGD's* Feeding Britain's Future, which focus on the sustainability of the food industry using the support of manufacturers to help people develop the right skills and capabilities for gaining employment. Similarly, through our partnership with The Prince's Trust we undertook several projects to improve the work prospects of young, unemployed people in our local communities, and those struggling at school and at risk of exclusion.

FOCUS AREAS

- Concentrating support on local community causes close to our business sites
- Continued collaboration to promote the sustainable growth of the food industry
- Ongoing projects as part of our four-year partnership with The Prince's Trust
- Corporate sponsorship of Farm Africa's Food for Good campaign and The Prince's Countryside Fund

£258,000

CHARITABLE DONATIONS MADE IN 2015

FAMILY FUN WEEKEND

In July Bakkavor's Spalding site hosted a weekend for employees and the local community which included a funfair, team games and live music.

OPENING OUR DOORS

As part of The Prince's Trust 'World of Work' campaign, our UK sites hosted 40 young people, enabling them to learn about food manufacturing roles and processes.

FIRST 'WORK-BASED ACADEMY' COMPLETED

Tilmanstone Salads trained a group of 19 local 18-24 year-olds to improve their employability skills. The attendees gained certificates in Food Safety, First Aid, Numeracy and Literacy and completed two days of work experience. Subsequently, 13 of the young people were successful in gaining permanent employment.

SUPPORTING LOCAL EVENTS

As part of its annual involvement in the Watercress Festival, Alresford Salads ran a 'design a salad competition' at a local school. The winning salad was produced by Alresford Salads and packs were sold by pupils at the Festival to raise money for new sports equipment.

* IGD: Institute of Grocery Distribution.

GOVERNANCE OF THE BUSINESS

AS WE EXPAND INTO NEW GEOGRAPHIES AND VENTURES, WE ARE INCREASINGLY RELIANT ON OUR MANAGEMENT TEAM'S LEADERSHIP TO REINFORCE OUR GOVERNANCE PROCEDURES AND MANAGE OUR KEY RISKS.

Menu from Waitrose Lamb Shanks with Chunky Roasted Vegetables, accompanied by Tesco Finest Green Vegetable Selection made at Bakkavor Meals, London.

Our in-house agronomy team works with farmers to develop new crop varieties and farming methods.

THE STRENGTH OF OUR SENIOR MANAGEMENT IS RECOGNISED IN THE INDUSTRY AS A CORE COMPETITIVE ADVANTAGE.

Our senior management team has a proven track record of delivering profitable growth in the food sector. Industry-specific commercial, operational and technical experience is complemented by core functional expertise and underpinned by an ongoing commitment to our values and a passion for our business.

100 years

TOTAL SERVICE OF THE MANAGEMENT BOARD

MANAGEMENT BOARD

A STRONG TEAM WITH THE EXPERIENCE TO DRIVE THE BUSINESS FORWARD.

AGUST GUDMUNDSSON
CHIEF EXECUTIVE OFFICER

KEY EXPERIENCE
- Entrepreneur and founder of Bakkavor Group
- Hands-on knowledge of food industry start-ups
- Group Executive Chairman from 1986 to 2006
- 29 years of service with Bakkavor

PETER GATES
CHIEF FINANCIAL OFFICER

KEY EXPERIENCE
- International financial experience including Saatchi & Saatchi and Avis Europe
- Over 30 years of corporate finance activity
- Chartered Accountant
- Member of the Association of Corporate Treasurers
- 5 years of service with Bakkavor

JOHN GORMAN

During the year under review, John Gorman was a member of the Management Board as President and CEO of Bakkavor USA. John stepped down from this role on 31 December 2015 and we would all like to thank him for his great contribution to the Group over many years.

MIKE EDWARDS
CHIEF OPERATING OFFICER, UK

KEY EXPERIENCE
- Various senior operational roles across Bakkavor
- In-depth knowledge of fresh prepared food categories
- Over 26 years in the food industry, including United Biscuits and Heinz
- 14 years of service with Bakkavor

ANN SAVAGE
GROUP TECHNICAL DIRECTOR

KEY EXPERIENCE
- Over 35 years of food industry experience
- Range of senior technical, development, research and manufacturing roles
- Active engagement in industry-wide governance and consultation roles
- 16 years of service with Bakkavor

PIPPA GREENSLADE
GROUP HR DIRECTOR

KEY EXPERIENCE
- Over 25 years in global HR roles
- Senior management roles with Cadbury Schweppes and the British Council
- 2 years of service with Bakkavor

IVAN CLINGAN
PRESIDENT & CEO OF BAKKAVOR USA

KEY EXPERIENCE
- Extensive knowledge of fresh prepared foods
- Senior operational and functional roles with Bakkavor, most recently as Managing Director, Fresh Convenience in the UK
- Qualified as a Management Accountant with Nestlé
- 25 years of service with Bakkavor

EINAR GUSTAFSSON
MANAGING DIRECTOR, BAKKAVOR ASIA

KEY EXPERIENCE
- Turnaround specialist for two US seafood companies
- Management consultancy background with Deloitte
- 10 years of service with Bakkavor

CORPORATE GOVERNANCE

AT BAKKAVOR, WE BELIEVE THAT EFFECTIVE GOVERNANCE IS REALISED THROUGH LEADERSHIP AND COLLABORATION.

OUR GOVERNANCE FRAMEWORK

We operate within a governance framework that reflects our business structure, culture and values and which we believe identifies all the elements of a sound approach to governance and responsibility.

The Group Board, together with the Management Board, uses the governance framework to set and monitor governance and responsibility objectives, identify improvement opportunities and ensure that activities align with business strategy. Through this framework we provide assurance to all our stakeholders that Bakkavor is a well-managed, responsible company. Each element of the governance framework is detailed below.

The Group Board retains ultimate responsibility for upholding corporate governance standards and determining the strategic objectives of the Group. The Management Board implements the strategic objectives of the Group Board, determines investment policies, agrees on performance criteria and delegates to senior management the detailed planning and implementation of those objectives and policies in accordance with appropriate risk parameters. It monitors compliance with policies and achievement against objectives by holding management accountable for its activities through monthly and quarterly performance reporting and budget updates. The Management Board receives regular presentations from Heads of key Group functions, enabling it to explore specific issues and developments in greater detail.

The governance framework is reinforced across the organisation and addresses stakeholder interests through the five Bakkavor values, which define our approach to all aspects of our business. Our values are Customer care, Can Do attitude, Teamwork, Innovation and Getting it right, Keeping it right. These values are fundamental to our ability to carry out our day-to-day business with integrity. We recruit people and reward all managers against their ability to demonstrate Bakkavor values.

Details of the Group Board who served during the reporting period can be found on page 45 in the Directors' Report. Management Board profiles can be found on pages 40 to 41.

RISK IDENTIFICATION AND MANAGEMENT

Our model empowers the managers of our businesses to identify, evaluate and manage the risks they face on a timely basis. Principal risks and internal control procedures are assigned to key members of the Management Board. It is their responsibility to report to the Board each month on the actions associated with each key risk.

In last year's Annual Report and Accounts we reported eight key risks, the management of which we considered to be paramount to the day-to-day running of our business and the achievement of our long-term vision. We continue to believe that all eight identified risks remained key risks to the business in 2015. More information about these risks, why they are deemed to be key, how we mitigate them and what progress we have made during the year can be found on pages 18 to 19. An overview of which Management Board member is responsible for managing each key risk is provided in the table on page 43.

The Group has robust internal control and risk management processes, which are designed to provide assurance but which cannot avoid all risks. The systems are designed to manage rather than to eliminate all possible risk and to provide reasonable, but not absolute, assurance against material misstatement or loss. These processes also support management's decision-making, improve the reliability of business performance and assist in the preparation of the Group's consolidated accounts.

AUDIT COMMITTEE

The Group Board has delegated authority to the Audit Committee, which comprises key management across the business, to regularly monitor internal controls. Each year the Audit Committee meets to discuss and approve the nature and scope of the audit programme for the year. The Audit Committee then instructs the internal audit function to undertake an agreed schedule of audits, during which the effectiveness of the controls operating within the business are reviewed. The Group's internal audit function, which comprises both employees and professionals from an external provider, Baker Tilly, has the skills and experience relevant to the operation of each business. In addition to our internal audit function, the completion of comprehensive internal control questionnaires is required from Financial Controllers within each business unit. These self-assessment representations are designed to ensure that any material control breakdowns are highlighted. The results of these representations are reviewed by internal audit before being reported to the Audit Committee.

AUDITORS

The Audit Committee is also responsible for the appointment of the Company's Auditor, Deloitte LLP. Annually, the Committee reviews the relationships the Company has with Deloitte LLP and considers the level of non-audit services provided by the Auditor. The engagement of Deloitte LLP for non-audit services requires approval from the Group Financial Controller and, if significant, the Audit Committee, to ensure that any services provided do not impair the objectivity of the external Auditor. A list of non-audit services provided by Deloitte LLP in 2015 and the associated fees has been provided in note 6 to the Group's financial statements.

ENGAGING WITH INVESTORS

The Board delegates the management of Bakkavor's investor engagement programmes to our CEO, CFO and Head of External Affairs. In 2015 the team ran an extensive programme of events and held numerous meetings and telephone calls with investors and analysts.

Please refer to the Investor Relations section on our website for further information and key dates.

MANAGEMENT BOARD RISK MANAGEMENT RESPONSIBILITIES

OPERATIONAL RISKS		
FOOD SAFETY & INTEGRITY	HEALTH & SAFETY AND ENVIRONMENT	LOSS OF KEY EMPLOYEES
GROUP TECHNICAL DIRECTOR		GROUP HR DIRECTOR

MARKET RISKS		
CUSTOMER RELATIONSHIPS	CONSUMER UNDERSTANDING	INPUT COST AND WAGE INFLATION
CHIEF OPERATING OFFICER, UK		

FINANCIAL RISKS	
COVENANT COMPLIANCE	INTEREST RATES, FOREIGN EXCHANGE RATES, LIQUIDITY & CREDIT
CHIEF FINANCIAL OFFICER	

DIRECTORS' REPORT

The Directors present their annual report on the affairs of Bakkavor Finance (2) plc (the 'Group'). This is accompanied by the financial statements and Auditor's Report for the 52 weeks ended 26 December 2015. Comparatives are for the 52 weeks ended 27 December 2014.

RESULTS FOR THE YEAR

The results of the Group for the year are set out in the Group Income Statement. The profit for the year after taxation and exceptional items was £53.9 million (2014: profit after tax of £11.5 million). Further details of the Group's financial performance are outlined in the Financial Review on pages 26 to 29.

IMPORTANT EVENTS SINCE THE END OF THE FINANCIAL YEAR

On 25 January 2016, we announced that Bakk AL Holdings Limited, a company owned by Agust and Lydur Gudmundsson and funds managed by the Baupost Group L.L.C., purchased the shares in Bakkavor Group Limited previously owned by BG12 slhf and certain other shareholders, for £163 million. Accordingly, Bakk AL Holdings Limited now owns approximately 89% of the outstanding shares in Bakkavor Group Limited, the ultimate parent of Bakkavor Finance (2) plc.

The Directors see this as a very positive move and is pleased to welcome its new shareholders, who are long-term investors with experience of investing in a wide range of securities and asset classes and has previously invested in a variety of food-related businesses across a number of different geographies. Agust and Lydur Gudmundsson, who own a controlling interest in Bakk AL Holdings Limited, will remain in their current roles and retain their positions as CEO and Chairman respectively on the Board. There will be no changes to day to day operations, the Management Board or other senior positions.

On 28 January 2016, the Group announced the redemption of £75 million of its Senior Secured Notes due 2018 with a redemption date of 29 February 2016. The redemption is to be financed through existing cash reserves.

FUTURE DEVELOPMENTS

We expect the trading environment to remain challenging over the coming months due to pressures from intense retailer competition and the introduction of the National Living Wage. Despite this, we remain focused on working closely with our customers and investing across the Group to drive growth, technical excellence and product innovation.

GOING CONCERN DISCLOSURE

The Directors, in their detailed consideration of going concern, have reviewed the Group's future cash forecasts and revenue projections, which they believe are based on prudent market data and past experience. The Directors considered the Group's level of liquidity and compliance with its financing arrangements. At the date of this report the Group has complied in all respects with the terms of its borrowing agreements, including its financial covenants, and forecasts to continue to do so. Consequently, the Directors consider that the Company and the Group have adequate resources to meet their liabilities as they fall due for a period of at least 12 months from the date of approval of the financial statements. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

RESEARCH AND DEVELOPMENT

The main focus of the Group's research and development expenditure is product innovation. Research and development expenditure totalled £7.7 million in the year (2014: £7.9 million).

EMPLOYEE INVOLVEMENT

During the financial year we continued to provide open channels of communication between employees and management through regular Site Employee Forums (SEFs) and the annual Group Employee Forum (GEF). At the GEF, matters of common concern to employees are discussed (including updates on the Group's financial performance) and learnings, best practice and ideas are shared. This enables positive policy development and the communication and discussion of operational changes.

EQUAL OPPORTUNITIES

The Group is an equal opportunities employer. Equal opportunities are offered to all regardless of race, colour, nationality, ethnic origin, sex (including gender reassignment), marital or civil partnership status, disability, religion, belief, sexual orientation, pregnancy and maternity, age or trade union membership. All candidates and employees are treated equally in respect of recruitment, promotion, training, pay and other employment policies and conditions. All decisions are based on relevant merit and abilities.

DISABLED EMPLOYEES

The Group gives full and fair consideration to employment applications made by people with disabilities. We offer equal opportunity to all disabled candidates and employees who have a disability or who become disabled during the course of their employment. A full assessment of the individual's needs is undertaken and reasonable adjustments are made to the work environment and/or practices in order to assist those with disabilities.

OVERSEAS SUBSIDIARIES

Information on the Company's subsidiaries is set out in note 10 to the Company's financial statements.

DIRECTORS

The Directors who served throughout the period under review were as follows:

A Gudmundsson
L Gudmundsson
B Bjarnason (resigned 22 January 2016)
H Ludvigsson (resigned 22 January 2016)
G Sigurdsson (resigned 22 January 2016)

Following our announcement on 25 January 2016 regarding the change in Bakkavor Group Limited shareholding, we confirm that Agust and Lydur Gudmundsson will remain in their current roles and retain their positions as CEO and Chairman respectively. However, as outlined by our Chairman on page 8, this will lead to a significant change in our Board composition. At the time of publishing this Annual Report and Accounts, the new Board is still being finalised. Once confirmed, the Board members will be announced and Board positions and biographies will be posted on our corporate website.

The Company has made qualifying third–party indemnity provisions for the benefit of Directors which remain in force at the date of this report.

DIVIDENDS

The Directors do not propose payment of a dividend for the 52 weeks ended 26 December 2015 (2014: £nil).

FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES

Information on the Group's financial risk management objectives and policies and on the exposure of the Group to relevant risks in respect of financial instruments is set out in the key risks section and in note 30 (Financial Instruments).

AUDITORS

Each of the persons who is a Director at the date of approval of this Annual Report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's Auditor is unaware; and
- the Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418(2) of the Companies Act 2006. Deloitte LLP has expressed its willingness to continue in office as Auditor and a resolution to reappoint Deloitte LLP will be proposed at the Company's Annual General Meeting.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Company and the Group for that period. In preparing these financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company and the Group's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

STRATEGIC REPORT

In accordance with section 414A of the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, as a large private company, Bakkavor Finance (2) Plc Group, has prepared a Strategic Report, which can be found on pages 1 to 37 of this Annual Report and which includes information about employee and environmental matters.

The Strategic Report was approved by the Board of Directors on 24 February 2016.

By order of the Board

A Gudmundsson
Director

24 February 2016

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF BAKKAVOR FINANCE (2) PLC

We have audited the financial statements of Bakkavor Finance (2) plc (the 'Company') and its subsidiaries (the 'Group') for the 52 weeks ended 26 December 2015 ('period') which comprise the consolidated income statement, the consolidated statement of comprehensive income and expense, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statements of cash flows, and the related notes 1 to 41, company income statement, company statement of changes in equity, company statement of financial position, company statement of cash flows and the related notes 1 to 15. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

OPINION ON FINANCIAL STATEMENTS

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and of the parent Company's affairs as at 26 December 2015 and of the Group's profit and the Company's profit for the period then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

SEPARATE OPINION IN RELATION TO IFRSs AS ISSUED BY THE IASB

As explained in Note 2 to the financial statements, the Group in addition to applying IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the financial statements comply with IFRSs as issued by the IASB.

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

C. J. Robertson

Christopher Robertson
(Senior statutory auditor)

for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Birmingham, UK

24 February 2016

CONSOLIDATED INCOME STATEMENT

52 WEEKS ENDED 26 DECEMBER 2015

£ million	Notes	52 weeks ended 26 December 2015 Before non-recurring items	52 weeks ended 26 December 2015 Non-recurring items	52 weeks ended 26 December 2015 Total	52 weeks ended 27 December 2014 Before non-recurring items	52 weeks ended 27 December 2014 Non-recurring items	52 weeks ended 27 December 2014 Total
Continuing operations							
Revenue	4,5	**1,674.5**	**–**	**1,674.5**	1,633.5	–	1,633.5
Cost of sales		**(1,206.4)**	**–**	**(1,206.4)**	(1,195.2)	–	(1,195.2)
Gross profit		**468.1**	**–**	**468.1**	438.3	–	438.3
Distribution costs		**(82.9)**	**–**	**(82.9)**	(77.8)	–	(77.8)
Other administrative costs		**(296.9)**	**–**	**(296.9)**	(289.1)	–	(289.1)
Royalty charge		**(1.2)**	**–**	**(1.2)**	(1.2)	–	(1.2)
Exceptional items	7	**–**	**(3.5)**	**(3.5)**	–	(6.6)	(6.6)
Impairment of assets	8	**–**	**–**	**–**	–	(4.1)	(4.1)
Total administrative costs		**(298.1)**	**(3.5)**	**(301.6)**	(290.3)	(10.7)	(301.0)
Profit on disposal of subsidiary	33	**–**	**–**	**–**	–	1.8	1.8
Profit on disposal of associate	19,33	**–**	**5.2**	**5.2**	–	–	–
Share of results of associates after tax	19	**0.8**	**–**	**0.8**	1.0	–	1.0
Operating profit/(loss)		**87.9**	**1.7**	**89.6**	71.2	(8.9)	62.3
Investment revenue	5,10	**0.1**	**–**	**0.1**	0.1	–	0.1
Finance costs	11	**(46.2)**	**(9.3)**	**(55.5)**	(53.1)	–	(53.1)
Other gains (net)	12	**15.0**	**–**	**15.0**	1.9	–	1.9
Profit/(loss) before tax		**56.8**	**(7.6)**	**49.2**	20.1	(8.9)	11.2
Tax	13	**(10.9)**	**2.1**	**(8.8)**	(4.0)	1.6	(2.4)
Profit/(loss) for the period from continuing operations		**45.9**	**(5.5)**	**40.4**	16.1	(7.3)	8.8
Discontinued operations							
Profit for the period from discontinued operations	14,33	**3.1**	**10.4**	**13.5**	2.7	–	2.7
Profit/(loss) for the period	6	**49.0**	**4.9**	**53.9**	18.8	(7.3)	11.5
Attributable to:							
Equity holders of the parent		**47.7**	**4.9**	**52.6**	18.1	(7.3)	10.8
Non-controlling interests	32	**1.3**	**–**	**1.3**	0.7	–	0.7
		49.0	**4.9**	**53.9**	18.8	(7.3)	11.5

The notes to the accounts form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME AND EXPENSE

52 WEEKS ENDED 26 DECEMBER 2015

£ million	Notes	52 weeks ended 26 December 2015	52 weeks ended 27 December 2014
Profit for the period		53.9	11.5
Other comprehensive income/(expense)			
Items that will not be reclassified subsequently to income statement:			
Actuarial (loss)/gain on defined benefit pension schemes	38	(14.4)	0.3
Tax relating to components of other comprehensive income	13	2.8	–
		(11.6)	0.3
Items that may be reclassified subsequently to income statement:			
Exchange differences on translation of foreign operations		3.4	1.1
Exchange differences on translation of discontinued foreign operations		(2.2)	(0.5)
Net exchange losses recycled to income statement on disposal of subsidiaries	33	–	1.7
		1.2	2.3
Total other comprehensive income		(10.4)	2.6
Total comprehensive income		43.5	14.1
Attributable to:			
Equity holders of the parent		43.0	13.8
Non-controlling interests		0.5	0.3
		43.5	14.1

The notes to the accounts form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

26 DECEMBER 2015

£ million	Notes	26 December 2015	27 December 2014
Non-current assets			
Goodwill	15	**642.9**	642.1
Other intangible assets	16	**5.1**	9.4
Property, plant and equipment	17	**281.2**	277.8
Interests in associates	19	**10.7**	10.9
Other investments	20	**0.1**	0.1
Retirement benefit asset	38	**–**	6.7
		940.0	947.0
Current assets			
Inventories	21	**57.5**	64.3
Trade and other receivables	22	**182.9**	201.3
Cash and cash equivalents	23	**97.0**	24.6
Derivative financial instruments	25	**0.5**	0.5
		337.9	290.7
Total assets		**1,277.9**	1,237.7
Current liabilities			
Trade and other payables	28	**(389.8)**	(364.1)
Current tax liabilities		**(6.2)**	(18.3)
Borrowings	24	**(14.9)**	(8.8)
Obligations under finance leases	27	**(0.5)**	(0.4)
Provisions	29	**(3.4)**	(0.6)
Derivative financial instruments	25	**(2.5)**	(6.9)
Deferred income		**(0.7)**	–
		(418.0)	(399.1)
Non-current liabilities			
Trade and other payables	28	**(0.3)**	(0.2)
Borrowings	24	**(465.8)**	(485.4)
Obligations under finance leases	27	**(4.4)**	(1.7)
Provisions	29	**(10.7)**	(11.5)
Deferred tax liabilities	26	**(16.5)**	(16.9)
Retirement benefit obligation	38	**(3.9)**	–
Deferred income		**(1.2)**	–
		(502.8)	(515.7)
Total liabilities		**(920.8)**	(914.8)
Net assets		**357.1**	322.9
Equity			
Share capital	31	**0.1**	0.1
Share premium	31	**315.2**	315.2
Merger reserve	31	**45.2**	45.2
Capital reserve	31	**4.0**	4.0
Translation reserve	31	**19.5**	17.5
Retained earnings		**(26.9)**	(67.9)
Shareholder's equity		**357.1**	314.1
Non-controlling interest	32	**–**	8.8
Total equity		**357.1**	322.9

The financial statements of Bakkavor Finance (2) plc and the accompanying notes, which form an integral part of the consolidated financial statements, were approved by the Board of Directors on 24 February 2016. They were signed on behalf of the Board of Directors by:

A Gudmundsson
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

52 WEEKS ENDED 26 DECEMBER 2015

	Equity attributable to owners of the parent								
£ million	Share capital	Share premium	Merger reserve	Capital reserve	Translation reserve	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 29 December 2013	**0.1**	**315.2**	**45.2**	**4.0**	**14.8**	**(77.8)**	**301.5**	**–**	**301.5**
Profit for the period	–	–	–	–	–	10.8	10.8	0.7	11.5
Other comprehensive income/(expense) for the period	–	–	–	–	2.7	0.3	3.0	(0.4)	2.6
Total comprehensive income for the period	–	–	–	–	2.7	11.1	13.8	0.3	14.1
Disposal of investment (note 33)	–	–	–	–	–	(1.2)	(1.2)	8.5	7.3
Balance at 27 December 2014	**0.1**	**315.2**	**45.2**	**4.0**	**17.5**	**(67.9)**	**314.1**	**8.8**	**322.9**
Profit for the period	–	–	–	–	–	52.6	52.6	1.3	53.9
Other comprehensive income/(expense) for the period	–	–	–	–	2.0	(11.6)	(9.6)	(0.8)	(10.4)
Total comprehensive income for the period	–	–	–	–	2.0	41.0	43.0	0.5	43.5
Dividends paid	–	–	–	–	–	–	–	(1.3)	(1.3)
Disposal of non-controlling interest (note 32)	–	–	–	–	–	–	–	(8.0)	(8.0
Balance at 26 December 2015	**0.1**	**315.2**	**45.2**	**4.0**	**19.5**	**(26.9)**	**357.1**	**–**	**357.1**

The notes to the accounts form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

52 WEEKS ENDED 26 DECEMBER 2015

£ million	Notes	52 weeks ended 26 December 2015	52 weeks ended 27 December 2014
Net cash generated from operating activities	35	101.6	86.4
Investing activities:			
Interest received		0.1	0.1
Dividends received from associates		0.6	0.6
Purchases of property, plant and equipment		(38.2)	(50.8)
Proceeds on disposal of property, plant and equipment		0.2	1.6
Acquisition of business	34	(19.6)	–
Disposal of subsidiaries net of cash disposed of	33	20.5	10.8
Disposal of associate	33	6.0	–
Net cash used in investing activities		(30.4)	(37.7)
Financing activities:			
Dividends paid to non-controlling interests	32	(1.3)	–
Increase in borrowings		143.9	1.6
Repayments of borrowings		(140.6)	(72.6)
Repayments of obligations under finance leases		(0.7)	(0.5)
Net cash generated from/(used in) financing activities		1.3	(71.5)
Net increase/(decrease) in cash and cash equivalents		72.5	(22.8)
Cash and cash equivalents at beginning of period		24.6	47.5
Effect of foreign exchange rate changes		(0.1)	(0.1)
Cash and cash equivalents at end of period		97.0	24.6

The notes to the accounts form an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

52 WEEKS ENDED 26 DECEMBER 2015

1 GENERAL INFORMATION

Bakkavor Finance (2) plc (the 'Company') is a Public Limited Company whose ultimate parent Company and controlling party is Bakkavor Group Limited, a Company registered in the United Kingdom. The address of the registered office is given in note 41.

The principal activities of the Company and its subsidiaries (the 'Group') comprise preparation, marketing and distribution of fresh prepared foods and fresh produce. These activities are undertaken in the UK, Continental Europe, Asia and the US and products are primarily sold through high street supermarkets.

In the current year, the Group has adopted the following Standards and Interpretations with no material impact on the financial statements of the Group.

Amendments:

IAS 19	Defined Benefit Plans: Employee Contributions (Nov 2013)
Various	Annual Improvements 2010 – 2012 cycle (Dec 2013)
Various	Annual Improvements 2011 – 2013 cycle (Dec 2013)

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases have not yet been adopted by the EU):

New or revised standards:

IFRS 9	Financial Instruments (Nov 2009 and Oct 2010)
IFRS 9	Financial Instruments: Hedge Accounting and Amendments to IFRS 9, IFRS 7 and IAS 39 (Nov 2013)
IFRS 9	Financial Instruments 2014 (Nov 2013)
IFRS 14	Regulatory Deferral Accounts (Jan 2014)
IFRS 15	Revenue from Contracts with Customers (May 2014)
IFRS 16	Leases (Jan 2016)

Amendments:

IAS 1	Disclosure initiative (Dec 2014)
IFRS 10 & IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Sep 2014)
IFRS 11	Accounting for Acquisitions of Interests in Joint Operations (May 2014)
IAS 16 & IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation (May 2014)
IAS 16 & IAS 41	Agriculture: Bearer Plants (Jun 2014)
IAS 27	Equity Method in Separate Financial Statements (Aug 2014)
IAS 32	Presentation: Offsetting Financial Assets and Financial Liabilities (Dec 2011)
IAS 36	Recoverable Amount Disclosures for Non-Financial Assets (May 2013)
IAS 39	Novation of Derivatives and Continuation of Hedge Accounting (June 2013)
Various	Annual Improvements 2012 – 2014 cycle (Sep 2014)
Various	IFRS 10, IFRS 12 and IAS 27: Investment Entities (Oct 2012)
Various	IFRS 10, IFRS 12 and IAS 28: Investment Entities, Applying the Consolidation Exception (Dec 2014)

With the exception of IFRS 9, IFRS 15 and IFRS 16, the Directors anticipate that the adoption of these Standards and Interpretations will have no material impact on the financial statements of the Group. The adoption of IFRS 9 Financial Instruments will impact both the recognition and disclosure of the Group's financial instruments, IFRS 15 may impact revenue recognition and IFRS 16 will be applicable to the Group's leases. It is not practical to quantify the future impact of the application of IFRS 9, IFRS 15 and IFRS 16.

2 SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB). The financial statements have also been prepared in accordance with IFRSs adopted by the European Union.

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 financial statements have been prepared on the historical cost basis, except for the revaluation of financial instruments. The principal accounting policies adopted are set out below.

GOING CONCERN

The Directors have reviewed the historical trading performance of the Group and the forecasts through to March 2017. See note 3, for the Directors' consideration of Going Concern.

BASIS OF CONSOLIDATION

The Group financial statements comprise the financial statements of the parent undertaking and its subsidiary undertakings, together with the Group's share of the results of associated undertakings comprising a 53 or 52 week period ending on the Saturday nearest to 31 December. Where the fiscal year 2015 is quoted in these financial statements this relates to the 52 week period ended 26 December 2015. The fiscal year 2014 relates to the 52 week period ended 27 December 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

2 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

SUBSIDIARIES

Subsidiary undertakings are included in the Group financial statements from the date on which control is achieved, and cease to be consolidated from the date on which control is transferred out of the Group. Control is achieved when the Group is exposed, or have rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group reassesses whether or not it controls an investee when facts and circumstances indicate that there are changes to one or more of the elements of control.

When the Company has less than a majority of the voting rights of an investee, it considers all relevant facts and circumstances in assessing whether or not it has power over the investee to direct the relevant activities of the investee unilaterally.

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. The interests of non-controlling shareholders are measured at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amount of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries.

Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

BUSINESS COMBINATIONS

Business acquisitions from third parties are accounted for using the acquisition method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date.

Goodwill arising on business combinations is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after the reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the income statement.

When the consideration in a business combination includes an asset or liability resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition date fair value and included as part of the consideration transferred. Changes in the fair value of the contingent consideration are adjusted retrospectively, with corresponding adjustments against goodwill.

Where a business combination is achieved in stages, the Group's previously-held interests in the acquired entity are re-measured to fair value at the acquisition date (i.e. the date the Group attains control) and the resulting gain or loss, if any, is recognised in the income statement.

GOODWILL

Goodwill is initially recognised and measured as set out above in the business combinations note.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the cash-generating units (CGUs) or groups of CGUs expected to benefit from the synergies of the combination. CGUs or groups of CGUs to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or associate, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Group's policy for goodwill on the acquisition of an associate is described in the investment in associates note overleaf.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

2 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

INVESTMENTS IN ASSOCIATES

An investment in an associate is an entity over which the Group is in a position to exercise significant influence, through participation in the financial and operating policy decisions of the investee. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results, assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Investments in associates are initially recognised in the statement of financial position at cost and adjusted thereafter by the Group's share of the profit or loss and other comprehensive income of the associate, less any impairment in the value of individual investments.

On acquisition of the investment, goodwill is the excess of cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities, which is included within the carrying amount of the investment. The entire carrying amount of the investment is tested for impairment, as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 'Impairment of Assets'.

Where a Group company transacts with an associate of the Group, profits and losses are only recognised in the financial statements to the extent of interests in the associate that are not related to the Group.

DISCONTINUED OPERATIONS

A discontinued operation is a component of an entity that has either been disposed of or is classified as held for sale and represents a separate major line of business or geographical area of operation. A discontinued operation is presented as a single amount and shown separately from continuing operations in the income statement and statement of comprehensive income. Italpizza S.r.l has been sold in the current period resulting in it being disclosed as a discontinued operation. As a result, prior year figures in the consolidated income statement and related notes have been re-presented to present separately amounts relating to operations classified as discontinued in the current period. For details see note 14.

REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods provided in the normal course of business, net of discounts, VAT and other sales-related taxes.

The Group sells fresh prepared foods and fresh produce.

Revenue from the sale of these goods is recognised when all of the following conditions are satisfied:
- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow into the entity;
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

As a result, revenue for the sale of these goods is generally recognised upon delivery to the customer.

LEASES

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

FINANCE LEASES

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. The interest element of the finance cost is charged to the income statement over the lease period.

OPERATING LEASES

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

2 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

FOREIGN CURRENCY

The individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in Pounds Sterling, being the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each statement of financial position date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the statement of financial position date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the income statement for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the income statement for the period except for differences arising on the retranslation of non-monetary items carried at historical cost of which gains and losses are recognised directly in other comprehensive income.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the statement of financial position date. Income and expense items are translated at the annual average rate, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in the Group's translation reserve.

On the disposal of a foreign operation, all of the accumulated exchange differences in respect of that operation attributable to the Group are reclassified to the income statement. However, a partial disposal of a foreign operation where the Group does not lose control, results in the proportionate share of accumulated exchange differences being re-attributed to non-controlling interests and is not recognised in the income statement.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

RESEARCH AND DEVELOPMENT

Research and development costs comprise all directly attributable costs necessary to create and produce new products which are both new in design and those being modified. Expenditure on research and development is recognised as an expense in the period in which it is incurred.

OPERATING PROFIT

Operating profit is stated after charging exceptional items (net), royalties, impairment of assets, disposal of subsidiaries and associates and share of results of associates but before investment revenue, finance costs and other gains and losses.

RETIREMENT BENEFIT OBLIGATIONS

DEFINED CONTRIBUTION PLANS

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity, which then invests the contributions to buy annuities for the pension liabilities as they become due based on the value of the fund and hence the Group has no legal or constructive obligations to pay further contributions. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as employee service is received. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme.

DEFINED BENEFIT PENSION PLANS

A defined benefit plan is a pension plan that defines the amount of pension benefit that an employee will receive on retirement, usually dependent on factors such as age, years of service and compensation.

For defined benefit schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each statement of financial position date. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside of the income statement and presented in the statement of comprehensive income.

Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

The retirement benefit recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost, and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the scheme.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

2 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

TAXATION

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the statement of financial position date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the statement of financial position liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. 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.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Where current and deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

PROPERTY, PLANT AND EQUIPMENT

All property, plant and equipment is stated in the statement of financial position at cost less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Depreciation is charged so as to write off the cost or valuation of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method, on the following bases:

Buildings – maximum period of 50 years
Plant and machinery – 1 to 20 years
Fixtures and equipment – 3 to 5 years

Freehold land is not depreciated. Most plant and machinery is depreciated over 12 years.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

Reviews of the estimated remaining useful lives of and residual values of individual productive assets are performed annually, taking account of commercial and technological obsolescence as well as normal wear and tear. All items of property, plant and equipment are reviewed for impairment when there are indications that the carrying value may not be recoverable.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

OTHER INTANGIBLE ASSETS

Intangible assets have finite useful lives over which the assets are amortised on a straight line basis. The amortisation charge for customer relationships and customer contracts is recognised as an expense over 10 years.

IMPAIRMENT

The useful economic lives of intangible assets are determined based on a review of a combination of factors including the asset ownership rights and the nature of the overall product life cycle.

Intangible assets and property, plant and equipment are tested for impairment when an event that might affect asset values has occurred. Examples of such triggering events include significant planned restructuring, a major change in market conditions or technology, expectations of future operating losses, or a significant reduction in cash flows.

An impairment loss is recognised, in the income statement, to the extent that the carrying amount cannot be recovered either by selling the asset or by the discounted future earnings from operating the assets in accordance with IAS 36 'Impairment of Assets'.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

2 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

FINANCIAL ASSETS

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets at 'fair value through profit or loss' (FVTPL), and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

FINANCIAL LIABILITIES

Financial liabilities held by the Group are classified as other financial liabilities at amortised cost and derivatives at FVTPL.

LOANS AND RECEIVABLES

Trade receivables and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short term receivables when the recognition of interest would be immaterial.

OTHER FINANCIAL LIABILITIES

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

EFFECTIVE INTEREST METHOD

Finance costs are recognised on an effective interest basis for debt instruments other than those financial liabilities designated as at FVTPL. The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating finance costs over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

FINANCIAL ASSETS AND FINANCIAL LIABILITIES AT FVTPL

Financial assets and financial liabilities are classified as at FVTPL when the financial asset/liability is either held for trading or it is designated as at FVTPL.

A financial asset/liability is classified as held for trading if:

- It has been acquired/incurred principally for the purpose of selling/disposal in the near term; or
- It is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial asset/liability other than a financial asset/liability held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial asset/liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the Group is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 'Financial Instruments: Recognition and Measurement' permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets/liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in the income statement. The net gain or loss recognised in the income statement incorporates any dividend or interest earned on the financial asset and interest paid on the financial liability. Fair value is determined in the manner described in note 30.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

2 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

FINANCIAL LIABILITIES CONTINUED

IMPAIRMENT OF FINANCIAL ASSETS

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each statement of financial position date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset have been affected.

Objective evidence of impairment could include:
- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national and local economic conditions that correlate with default on receivables. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the income statement. If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the income statement to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

DERECOGNITION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. Financial liabilities are derecognised when, and only when the Group's obligations are discharged, cancelled or expire.

DERIVATIVE FINANCIAL INSTRUMENTS

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group uses foreign exchange forward contracts and interest rate swap contracts to manage these exposures. The Group does not use derivative financial instruments for speculative purposes. The use of financial derivatives is governed by the Group's policies approved by the Board of Directors, which provide written principles on the use of financial derivatives. Changes in the fair value of derivative financial instruments are recognised in the income statement as they arise.

EMBEDDED DERIVATIVES

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value, with gains or losses reported in the income statement.

PROVISIONS

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

A restructuring provision is recognised when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

Present obligations arising from onerous contacts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

CONTINGENT LIABILITIES

A contingent liability is a possible obligation that arises from past events and the existence of which will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group or the amount of the obligation cannot be measured reliably. A contingent liability is disclosed in the notes to the financial statements and is not recognised when the obligation is not probable. When an outflow becomes probable, it is recognised as a provision.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

CRITICAL JUDGEMENTS IN APPLYING THE GROUP'S ACCOUNTING POLICIES

The following are areas of particular significance to the Group's financial statements and include the application of judgement, which is fundamental to the compilation of a set of financial statements:

GOING CONCERN

The Directors, in their detailed consideration of going concern, have reviewed the Group's future cash forecasts and revenue projections, which they believe are based on prudent market data and past experience. The Directors considered the Group's level of liquidity and compliance with its financing arrangements. At the date of this report the Group has complied in all respects with the terms of its borrowing agreements, including its financial covenants, and forecasts to continue to do so. Consequently, the Directors consider that the Group have adequate resources to meet their liabilities as they fall due for a period of at least 12 months from the date of approval of the financial statements. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

IMPAIRMENT OF GOODWILL AND OTHER INTANGIBLE ASSETS

The recoverable amount of CGUs or groups of CGUs are determined based on the higher of net realisable value and value in use calculations, which require the use of estimates. The Group has considered the impact of the assumptions used on the calculations and has conducted sensitivity analysis on the impairment tests of the CGUs carrying values. See notes 15 and 16 for further details.

FAIR VALUE OF DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

Derivative financial instruments and certain other financial assets are recorded at fair value in the statement of financial position. The fair value of the financial instruments that do not have quoted market prices requires significant judgement and estimates. The Directors use their judgement in selecting an appropriate valuation technique for these financial instruments. Valuation techniques commonly used by market practitioners are applied. For derivative financial instruments, assumptions are made based on quoted market rates adjusted for specific features of the instrument. Other financial instruments are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates.

The estimation of fair value of unlisted shares includes some assumptions not supported by observable market prices or rates. These assumptions are based on past and expected future performance. Details of the assumptions used and of the results of sensitivity analysis regarding these assumptions are disclosed in note 30.

Embedded derivatives that are not closely related to the host contract are separately accounted for at fair value through the income statement. The Group's embedded derivatives are the call option feature of certain Senior Secured Notes. The call option feature is valued as if it were a swap instrument which allows the Group to swap the fixed rate interest due for the Senior Secured Notes to a floating rate at the callable dates in return for the payment of a premium. The swap value is determined by market rates for swap instruments available for the call dates at the relevant fixed interest rate and taking into account the Group's credit spread at each statement of financial position date.

PENSIONS

The Group maintains a defined benefit pension plan for which it has recorded a pension asset or liability. The pension asset/liability is based on an actuarial valuation that requires a number of assumptions including discount rate, mortality rates and actual return on plan assets that may necessitate material adjustments to this asset/liability in the future. The assumptions used by the Group are the best estimates based on historical trends and the composition of the work force. Details of the principal actuarial assumptions used in calculating the recognised asset/liability for the defined benefit plan are given in note 38.

RECOGNITION OF DEFERRED TAX ASSETS AND CURRENT TAX PROVISION

The recognition of deferred tax assets is based upon whether it is probable that sufficient and suitable taxable profits will be available in the future against which the reversal of temporary differences can be deducted. Where the temporary differences relate to losses, the availability of the losses to offset against forecast taxable profits is also considered. Recognition therefore involves judgement regarding the future financial performance of the particular legal entity or tax group in which the deferred tax asset has been recognised. The Group had unrecognised deferred tax assets as a result of unused tax losses of £37.3 million (2014: £30.1 million), available for offset against future profits. Deferred tax assets are not recognised on the losses carried forward to the extent that it is not probable that the losses will be utilised.

The Group operates in various countries and its income tax returns are subject to audit and adjustment by local tax authorities. The nature of the Group's tax exposures is often complex and subject to change and the amounts at issue can be substantial. The Group develops an estimate of the potential tax liability based on the tax positions taken, historical experience and its internal tax expertise. These estimates are refined as additional information becomes known. Any outcome upon settlement that differs from a recorded provision may result in a materially higher or lower tax expense in future periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

4 SEGMENT INFORMATION

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

As at the statement of financial position date, the Group is organised as follows:
- UK: The preparation and marketing of fresh prepared foods and fresh produce for distribution in the UK.
- International: The preparation and marketing of fresh prepared foods and fresh produce outside of the UK.

The Group's segment measure of profit represents operating profit before exceptional items, impairment of assets, disposals of subsidiaries, associates and property, plant and equipment, royalty charges and share of results of associates. 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 segment information for the period to 26 December 2015:

£ million	UK	International	Un-allocated	Total Group	Discontinued operations	Continuing operations
Revenue	1,519.0	188.3	–	1,707.3	32.8	1,674.5
Segment profit	87.4	6.0	–	93.4	4.9	88.5
Royalty charge	(1.2)	–	–	(1.2)	–	(1.2)
Exceptional items (net)	(1.1)	(2.4)	–	(3.5)	–	(3.5)
Loss on disposal of property, plant and equipment	(0.1)	(0.1)	–	(0.2)	–	(0.2)
Profit on disposal of subsidiary	–	10.4	–	10.4	10.4	–
Profit on disposal of associate	5.2	–	–	5.2	–	5.2
Share of results of associates	0.1	0.7	–	0.8	–	0.8
Operating profit	90.3	14.6	–	104.9	15.3	89.6
Investment revenue				0.1	–	0.1
Finance costs				(55.6)	(0.1)	(55.5)
Other gains (net)				15.0	–	15.0
Profit before tax				64.4	15.2	49.2
Tax				(10.5)	(1.7)	(8.8)
Profit for the period				53.9	13.5	40.4
Other segment information:						
Depreciation and amortisation	(36.7)	(5.3)	–	(42.0)	(0.8)	(41.2)
Adjusted EBITDA	124.1	11.3	–	135.4	5.7	129.7
Capital additions	36.0	6.5	–	42.5	1.1	41.4
Total assets	1,067.0	113.2	97.7	1,277.9	–	1,277.9

The Group manages the performance of its businesses through the use of 'Adjusted EBITDA'. EBITDA is generally defined as operating profit/(loss) before share of results of associates, depreciation and amortisation. In calculating Adjusted EBITDA, we further exclude restructuring costs, royalty charges, asset impairments and those additional charges or credits that are one-off in nature and significance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

4 SEGMENT INFORMATION CONTINUED

The following table provides an analysis of the Group's segment information for the period to 27 December 2014:

£ million	UK	International	Un-allocated	Total Group	Discontinued operations	Continuing operations
Revenue	1,520.1	172.5	–	1,692.6	59.1	1,633.5
Segment profit	74.5	0.7	–	75.2	4.8	70.4
Royalty charge	(1.2)	–	–	(1.2)	–	(1.2)
Exceptional items	(6.4)	(0.2)	–	(6.6)	–	(6.6)
Impairment of assets	(3.8)	(0.3)	–	(4.1)	–	(4.1)
Profit on disposal of property, plant and equipment	1.0	–	–	1.0	–	1.0
Profit on disposal of subsidiaries	–	1.8	–	1.8	–	1.8
Share of results of associates	0.2	0.8	–	1.0	–	1.0
Operating profit	64.3	2.8	–	67.1	4.8	62.3
Investment revenue				0.1	–	0.1
Finance costs				(53.3)	(0.2)	(53.1)
Other gains and (losses)				1.7	(0.2)	1.9
Profit before tax				15.6	4.4	11.2
Tax				(4.1)	(1.7)	(2.4)
Profit for the period				11.5	2.7	8.8
Other segment information:						
Depreciation and amortisation	(38.4)	(6.3)	–	(44.7)	(1.8)	(42.9)
Adjusted EBITDA	112.9	7.0	–	119.9	6.6	113.3
Capital additions	42.3	8.8	–	51.1	1.6	49.5
Total assets	1,089.3	123.3	25.1	1,237.7	41.4	1,196.3

Discontinued operations relate to the Group's International segment.

MAJOR CUSTOMERS

In 2015 the Group's four largest customers accounted for 76% (2014: 76%) of our total revenue from continuing operations, with no single customer representing more than 30% (2014: 30%) of our revenue from continuing operations. The Group does not enter into long-term contracts with its retail customers.

5 REVENUE

£ million	**2015**	2014
Continuing operations		
Sale of goods	**1,674.5**	1,633.5
Investment revenue	**0.1**	0.1
	1,674.6	1,633.6
Discontinued operations		
Sale of goods	**32.8**	59.1

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

6 PROFIT/(LOSS) FOR THE PERIOD

Profit/(loss) for the period has been arrived at after charging/(crediting):

£ million	2015	2014
Continuing operations		
Depreciation of property, plant and equipment – owned	34.8	34.4
– leased	0.5	0.4
Research and development costs	7.7	7.9
Cost of inventory recognised as an expense	779.3	799.8
Write down of inventories recognised as (credit)/expense	(0.4)	0.1
Amortisation of intangible assets	5.9	8.1
Impairment of assets (note 8)	–	4.1
Exceptional items (note 7)	3.5	6.6
Loss/(profit) on disposal of property, plant and equipment	0.2	(1.0)
Profit on disposal of subsidiary (note 33)	–	(1.8)
Profit on disposal of associate (note 19, 33)	(5.2)	–
Staff costs (note 9)	419.7	396.8

The analysis of auditor remuneration is as follows:

£'000	2015	2014
Fees payable to the Company's auditor for the audit of the Company's annual accounts	75	73
The audit of the Company's subsidiaries pursuant to legislation	279	299
Total audit fees	354	372
Tax services	484	340
Other assurance services	–	20
Corporate finance services	85	62
Other services	11	4
Total non-audit fees	580	426

7 EXCEPTIONAL ITEMS

Exceptional items are those that, in management's judgement, should be disclosed by virtue of their nature or amount. Exceptional items are as follows:

£ million	2015	2014
Continuing operations		
Restructuring costs	(3.5)	(6.6)

RESTRUCTURING COSTS

2015

£1.1 million of restructuring costs relate to the closure of a fresh prepared fruit facility within the UK sector and £1.5 million relates to the restructuring of the Group's operation in Belgium. In addition, £0.9 million of costs were incurred following the decision by a major customer in the US to cease trading. With the exception of the US costs the restructuring costs are mainly in respect of redundancy payments.

2014

In 2014, the Group restructured a number of its UK businesses. As a consequence of this restructure and other reorganisation initiatives, the Group recognised exceptional charges of £6.6 million in 2014, principally arising from redundancy payments.

The allocation of exceptional items by segment is shown in note 4.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

8 IMPAIRMENT OF ASSETS

£ million	2015	2014
Continuing operations		
Impairment of goodwill	–	2.6
Impairment of intangible assets	–	0.1
Impairment of property, plant and equipment	–	1.4
	–	4.1

The annual impairment review of the carrying value of goodwill and intangible assets has resulted in no impairment charge being recognised within the Group (2014: £2.6 million goodwill and £0.1 million intangible asset impairments, both within the UK segment).

During the period, the Group has not impaired any property, plant and equipment (2014: £1.1 million impaired within the UK segment and £0.3 million within the International segment).

9 STAFF COSTS

The average monthly number of employees (including executive Directors) during the year was:

	2015 Number	2014 Number
Continuing operations		
Production	15,791	15,636
Management and administration	1,632	1,520
Sales and distribution	891	773
	18,314	17,929

Their aggregate remuneration comprised:

£ million	2015	2014
Continuing operations		
Wages and salaries	375.1	352.2
Social security and other costs	37.9	37.5
Other pension costs (note 38)	6.7	7.1
	419.7	396.8

The Directors' emoluments were as follows:

£'000	2015	2014
Directors' emoluments excluding pension contributions	848	876
Directors' pension contributions	95	79
	943	955

The aggregate emoluments of the highest paid Director were £546,363 (2014: £565,474). The pension contributions of the highest paid Director at 26 December 2015 were £58,050 (2014: £41,805).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

10 INVESTMENT REVENUE

£ million	2015	2014
Continuing operations		
Interest on bank deposits	0.1	0.1

11 FINANCE COSTS

£ million	2015	2014
Continuing operations		
Interest on borrowings	42.5	48.6
Interest on obligations under finance leases	0.2	0.2
Amortisation of refinancing costs	6.7	4.0
Call premium for 2018 Senior Secured Notes	5.8	–
Unwinding of discount on provisions (note 29)	0.3	0.3
	55.5	53.1

The call premium of £5.8 million and £3.5 million of accelerated amortisation of refinancing fees relating to the previous financing structure have been classed as non-recurring items in the consolidated income statement in the current period (2014: £nil).

12 OTHER GAINS (NET)

£ million	2015	2014
Continuing operations		
Change in the fair value of derivative financial instruments	4.2	1.5
Change in fair value of call option	10.7	–
Foreign exchange gains	0.1	0.4
	15.0	1.9

13 TAX

£ million	2015	2014
Continuing operations		
Current tax:		
Current period	6.4	3.1
Prior period adjustment	(0.3)	(2.6)
Deferred tax:		
Current period (note 26)	1.9	0.5
Prior period adjustment (note 26)	0.8	1.4
Tax charge for the period	8.8	2.4

Corporation tax is calculated at 20.25% (2014: 21.5%) of the estimated assessable profit/(loss) for the period. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

13 TAX CONTINUED

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

	2015 £ million	2015 %	2014 £ million	2014 %
Profit before tax:	49.2	100.0	11.2	100.0
Tax charge at the blended UK corporation tax rate of 20.25% (2014: 21.5%)	9.9	20.2	2.4	21.5
Non-deductible expenses	0.8	1.6	1.2	10.7
Adjustment in respect of prior periods	0.5	1.0	(1.2)	(10.7)
Tax effect of losses carried forward not recognised	0.4	0.8	1.3	11.6
Unprovided deferred tax assets now recognised	(0.8)	(1.6)	(0.7)	(6.3)
Overseas taxes at different rates	–	–	0.1	0.9
Release of deferred tax on IBA reversal	(0.8)	(1.6)	(0.9)	(8.0)
Deferred tax change in rate	(1.5)	(3.1)	(0.1)	(0.9)
Group relief surrendered to Bakkavor Group Limited free of charge	0.3	0.6	0.3	2.7
Tax charge and effective tax rate for the period	8.8	17.9	2.4	21.5

In addition to the amount charged to the income statement, a £2.8 million credit (2014: £nil) relating to tax has been recognised directly in other comprehensive income. No other tax charges/credits have been recognised directly in equity.

The UK corporation tax rate reduced from 21% to 20% from 1 April 2015. In accordance with the Finance (No. 2) Act 2015, the UK corporation tax rate will reduce to 19% in 2017 and 18% in 2020.

Deferred tax has been calculated at the tax rate applicable for the period in which the temporary differences are expected to reverse.

14 DISCONTINUED OPERATIONS

On 14 July 2015, the Group completed the sale of its remaining 60% stake in Italpizza S.r.l, its Italian Pizza manufacturing business, to Dreamfood S.r.l. for a cash consideration of £22.0 million (€31.0 million).

As a result Italpizza S.r.l qualified as a discontinued operation and has been presented as such in the income statement.

The results of the Group's discontinued operation has been included in the consolidated income statement as follows:

£ million	Notes	52 weeks ended 26 December 2015	52 weeks ended 27 December 2014
Discontinued operations			
Revenue	4,5	32.8	59.1
Cost of sales		(21.0)	(41.1)
Gross profit		11.8	18.0
Distribution costs		(1.4)	(2.4)
Total administrative costs		(5.5)	(10.8)
Profit on disposal of subsidiary	33	10.4	–
Operating profit		15.3	4.8
Finance costs		(0.1)	(0.2)
Other (losses) net		–	(0.2)
Profit before tax		15.2	4.4
Tax		(1.7)	(1.7)
Profit for the period from discontinued operations		13.5	2.7
Attributable to:			
Equity holders of the parent		12.2	2.0
Non-controlling interests		1.3	0.7
		13.5	2.7

During the year, discontinued operations used £0.5 million (2014: contributed cash of £5.6 million) of the Group's net operating cash flows, paid £1.4 million (2014: paid £1.5 million) in respect of investing activities (excluding proceeds from the disposal of the business) and received £0.6 million (2014: paid £4.9 million) in respect of financing activities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

15 GOODWILL

£ million	
Cost	
At 29 December 2013	712.6
Exchange differences	(0.4)
At 27 December 2014	712.2
Acquisition of business (note 34)	14.5
Disposal of subsidiary (note 33)	(33.9)
Exchange differences	1.0
At 26 December 2015	**693.8**
Accumulated impairment losses	
At 29 December 2013	(68.2)
Impairment	(2.6)
Exchange differences	0.7
At 27 December 2014	(70.1)
Disposal of subsidiary (note 33)	20.0
Exchange differences	(0.8)
At 26 December 2015	**(50.9)**
Carrying amount	
At 26 December 2015	**642.9**
At 27 December 2014	642.1

Goodwill acquired in a business combination is allocated, at acquisition, to the CGUs or group of CGUs that are expected to benefit from that business combination. A summary of the allocation of the carrying value of goodwill by segment is as follows:

£ million	**26 December 2015**	27 December 2014
UK	**601.5**	601.5
International	**41.4**	40.6
	642.9	642.1

The recoverable amounts of the CGUs or groups of CGUs are determined based on value in use calculations.

There was no impairment recognised during the period:

£ million	**2015**	2014
Continuing operations		
UK	–	2.6

The 2014 goodwill impairment, within the Group's UK segment was a result of difficult trading conditions across two of the Group's UK businesses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

15 GOODWILL CONTINUED

The key assumptions used in the impairment reviews were as follows:

- Discount rates: Management uses post-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The present value of the future cash flows is calculated using a pre-tax discount rate that ranges from 9.5% to 10.3% (2014: 8.4% to 10.4%).
- Growth rates. The revenue growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market. The Group this year has prepared cash flow forecasts derived from the most recent financial budgets approved by management for the next three years determined by business units, and extrapolated cash flows for the following two years based on an estimated growth rate, to provide a five year forecast. Cash flows are then extrapolated using a perpetuity growth rate of 2 per cent (2014: 2 per cent). The forecast cash flow of CGUs in those territories with growth rates below 2% perpetuity have been adjusted to reflect this.

The Group has conducted a sensitivity analysis on the impairment test of each CGUs carrying value. The assumptions used, and the impact of sensitivities on these assumptions, are shown below:

£ million	UK	International
Sensitivity:		
Head room of impairment test based on management assumptions	364.6	13.4

If the pre-tax discount rate were to be increased by a factor of 5%, the impairment charge would be £2.1 million and for an increase of 10% the impairment charge would be £4.5 million. A 10% reduction in the perpetuity growth rate would result in an impairment charge of £0.5 million. Furthermore, management continually review the commercial returns across the Group's product portfolio, and, as in the past, if such returns deteriorate then management may choose to exit from low margin business.

16 OTHER INTANGIBLE ASSETS

£ million	Customer Relationships	Customer Contracts	Total
Cost			
At 29 December 2013	89.8	1.6	91.4
Exchange differences	(0.2)	–	(0.2)
At 27 December 2014	89.6	1.6	91.2
Acquisition of business (note 34)	3.2	–	3.2
Disposal of subsidiary (note 33)	(4.9)	–	(4.9)
Exchange differences	(0.3)	–	(0.3)
At 26 December 2015	**87.6**	**1.6**	**89.2**
Accumulated amortisation and impairment			
At 29 December 2013	(71.7)	(1.4)	(73.1)
Impairment	–	(0.1)	(0.1)
Charge for the period	(8.6)	(0.1)	(8.7)
Exchange differences	0.1	–	0.1
At 27 December 2014	(80.2)	(1.6)	(81.8)
Disposal of subsidiary (note 33)	3.5	–	3.5
Charge for the period	(6.1)	–	(6.1)
Exchange differences	0.3	–	0.3
At 26 December 2015	**(82.5)**	**(1.6)**	**(84.1)**
Carrying amount			
At 26 December 2015	**5.1**	**–**	**5.1**
At 27 December 2014	9.4	–	9.4

The 2014 impairment charge of £0.1 million related to the Group's UK segment and arose due to difficult trading conditions in one particular business.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

17 PROPERTY, PLANT AND EQUIPMENT

£ million	Land and buildings	Plant and machinery	Fixtures and equipment	Total
Cost				
At 29 December 2013	183.8	308.5	51.7	544.0
Additions	7.2	38.1	5.8	51.1
Disposals	(0.8)	(0.7)	(0.5)	(2.0)
Reclassifications	(1.0)	0.8	0.2	–
Exchange differences	–	(0.8)	0.1	(0.7)
At 27 December 2014	189.2	345.9	57.3	592.4
Additions	4.1	32.2	6.2	42.5
Acquisition of business (note 34)	–	1.0	–	1.0
Disposals	(0.3)	(3.0)	(0.7)	(4.0)
Disposal of subsidiary (note 33)	(0.9)	(11.7)	(0.9)	(13.5)
Exchange differences	(0.3)	(1.3)	(0.1)	(1.7)
At 26 December 2015	**191.8**	**363.1**	**61.8**	**616.7**
Accumulated depreciation and impairment				
At 29 December 2013	(90.9)	(156.3)	(32.1)	(279.3)
Charge for the period	(6.5)	(22.9)	(6.6)	(36.0)
Disposals	0.4	0.6	0.4	1.4
Impairment	(0.3)	(1.1)	–	(1.4)
Reclassifications	(0.1)	–	0.1	–
Exchange differences	–	0.7	–	0.7
At 27 December 2014	(97.4)	(179.0)	(38.2)	(314.6)
Charge for the period	(6.3)	(22.9)	(6.7)	(35.9)
Disposals	0.3	2.7	0.6	3.6
Disposal of subsidiary (note 33)	0.4	9.0	0.8	10.2
Exchange differences	0.2	0.9	0.1	1.2
At 26 December 2015	**(102.8)**	**(189.3)**	**(43.4)**	**(335.5)**
Carrying amount				
At 26 December 2015	**89.0**	**173.8**	**18.4**	**281.2**
At 27 December 2014	91.8	166.9	19.1	277.8

The carrying value of the Group's plant and machinery includes an amount of £5.0 million (2014: £2.3 million) in respect of assets held under finance leases.

At 26 December 2015, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £4.2 million (2014: £2.1 million).

During the period, the Group has not impaired any property, plant and equipment (2014: £1.1 million within the UK sector and £0.3 million within the International sector).

18 SUBSIDIARIES

The Group consists of a parent company, Bakkavor Finance (2) plc, incorporated in the UK and a number of subsidiaries and associates held directly and indirectly by Bakkavor Finance (2) plc. Note 10 to the Company's separate financial statements lists details of the interests in subsidiaries.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

19 INTERESTS IN ASSOCIATES

Details of the associated undertakings of the Group at 26 December 2015 were as follows:

	Place of registration and operation	Principal activity	Proportion of voting interest 2015	Proportion of voting interest 2014	Method of accounting
Name of associate					
La Rose Noire Limited	Hong Kong	Producer of bakery and pastry products	**45.0%**	45.0%	Equity

On 9 December 2015, the Group sold its 27.5% share in its associate Manor Fresh Limited, a supplier of fresh produce based in the United Kingdom for a cash consideration of £6.0 million. The transaction has resulted in a profit on sale of associate of £5.2 million being recorded in the income statement.

£ million	Manor Fresh Limited	La Rose Noire Limited	Total
Associates that are not individually material			
At 29 December 2013	0.8	9.2	10.0
Share of profit after tax	0.2	0.8	1.0
Exchange differences	–	0.5	0.5
Dividend payment	(0.1)	(0.5)	(0.6)
At 27 December 2014	0.9	10.0	10.9
Share of profit after tax	0.1	0.7	0.8
Exchange differences	–	0.4	0.4
Dividend payment	(0.2)	(0.4)	(0.6)
Disposal of associate	(0.8)	–	(0.8)
At 26 December 2015	–	**10.7**	**10.7**

20 OTHER INVESTMENTS

£ million	Non listed investments held at cost
At 27 December 2014 and 26 December 2015	**0.1**

21 INVENTORIES

£ million	**26 December 2015**	27 December 2014
Raw materials and packaging	**48.3**	51.9
Work-in-progress	**3.2**	2.4
Finished goods	**6.0**	10.0
	57.5	64.3

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

22 TRADE AND OTHER RECEIVABLES

£ million	26 December 2015	27 December 2014
Amounts receivable from trade customers	155.1	168.2
Allowance for doubtful debts	(0.6)	(1.0)
Net amounts receivable from trade customers	154.5	167.2
Other receivables	18.3	14.6
Prepayments	10.1	19.5
	182.9	201.3

The Group has a £65 million (2014: £65 million) Receivables Securitisation Facility which it can draw against, up to a maximum of 72% of its net eligible receivables balance. As at 26 December 2015 the Group had not drawn against this facility (2014: £nil). The collection risk on these receivables remains with the Group until final settlement and therefore the Group continues to recognise these receivables until payment is received from the customer.

The average credit period taken on sales of goods is 32 days (2014: 33 days). An allowance has been made for estimated irrecoverable amounts from the sale of goods of £0.6 million (2014: £1.0 million). Allowances against receivables are made on a specific basis based on objective evidence and previous default experience. Receivables are therefore deemed past due but not impaired when the contractual obligation to pay has been exceeded, but as yet no objective evidence or previous default experience indicates this debt will be irrecoverable.

The Directors consider that the carrying amount of trade and other receivables from customers approximates to their fair value due to their short-term nature.

The following table is an ageing analysis of trade receivables from customers:

£ million	26 December 2015	27 December 2014
Not past due	136.6	152.1
Past due by 1 – 30 days	16.2	13.8
Past due by 31 – 60 days	1.2	1.3
Past due by 61 – 90 days	0.3	0.2
Past due by more than 90 days	0.8	0.8
	155.1	168.2

Trade receivables renegotiated in 2015 that would otherwise have been past due or impaired amounted to £nil (2014: £nil)

The majority of the Group's customers are leading UK retailers, representing more than 76% (2014: 76%) of the Group's revenue from continuing operations and therefore hold favourable credit ratings. On this basis the Group does not see any need to charge interest, seek collateral or credit enhancements to secure any of its trade receivables due to their short term nature.

The following table is an analysis of the movement of the Group's trade receivables allowance for doubtful debts:

£ million	26 December 2015	27 December 2014
Balance at beginning of the period	(1.0)	(0.8)
Allowances recognised against receivables	(0.4)	(0.8)
Amounts written off as uncollectible during the period	0.4	0.1
Amounts recovered during the period	0.1	0.4
Allowance reversed	0.3	0.1
Balance at end of the period	(0.6)	(1.0)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

23 CASH AND CASH EQUIVALENTS

£ million	26 December **2015**	27 December 2014
Cash and cash equivalents	**97.0**	24.6

Cash and cash equivalents comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less which are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value.

The carrying amount of these assets approximates their fair value.

24 BORROWINGS

On 29 April 2015, the Group agreed an increase and extension to its existing banking facilities. The new financing structure considerably extends the maturity of the Group's banking facilities and delivers a material reduction in the interest rate margin.

The facilities have been increased from £80 million to £220 million in total and the maturity extended from October 2016 to February 2018. The Group used the increase in liquidity to fund an early repayment of £140 million of the Group's existing 8.25% Senior Secured Notes due in 2018, resulting in significant interest savings for the Group.

BAKKAVOR FINANCE (2) PLC SENIOR SECURED NOTES

8.25% SENIOR SECURED NOTES

The Group has £192 million (2014: £332 million) of 8.25% Senior Secured Notes due in 2018 outstanding following the early repayment of £140 million of the Notes in April 2015. Interest on the Notes is payable semi-annually each year on 15 February and 15 August. The Notes will mature on 15 February 2018.

8.75% SENIOR SECURED NOTES

The Group has £150 million (2014: £150 million) of 8.75% Senior Secured Notes due in 2020. Interest on the Notes is payable semi-annually each year on 15 June and 15 December. The Notes will mature on 15 June 2020.

BAKKAVOR CENTRAL FINANCE LIMITED RECEIVABLES SECURITISATION FACILITY

The Group has a £65 million (2014: £65 million) Receivables Securitisation Facility whose maturity was extended from June 2016 to February 2018 during the year. The maximum drawing of the facility depends on the size of the Group's UK receivable book and the Group's ability to deliver against performance triggers. The Group can draw a maximum of 72% of net eligible receivables. Net eligible receivables, in its simplest form, is the Group's UK receivables aged no greater than 60 days less accruals for customer deductions.

The maximum drawdown period under this facility is one month provided that the amount drawn is less than 72% of net eligible receivables at any reporting date. The interest rate incurred by the Group for amounts drawn against the receivables facility is Libor plus a margin of 2.85% (2014: Libor plus a margin of 2.6%). As at 26 December 2015, the Group has not drawn against the facility (2014: £nil). The facility is subject to a non-utilisation fee of 1.4% (2014: 1.3%).

BAKKAVOR FINANCE (2) PLC BANK FACILITIES

The Group's total banking facilities amount to £220 million (2014: £130 million) comprising (i) a £150 million term loan (2014: £60 million term loan), split £25 million and £125 million maturing on 31 December 2017 and 15 February 2018 respectively and (ii) £70 million RCF (2014: £70 million RCF), which includes an overdraft and money market facility of £16.5 million (2014: £15.0 million) and further ancillary facilities of £12.4 million (2014: £12.4 million).

The Group has not repaid any of the term loan as at 26 December 2015 (2014: £50 million) and therefore the balance owing at that date was £150 million (2014: £10.0 million). At 26 December 2015 there were no drawings under the RCF and overdraft facilities (2014: £nil).

Of the outstanding term loan amount, £25 million will be repaid in instalments of £5 million every six months with the first payment to be made on 31 December 2015 and the final payment to be made on 31 December 2017. The remaining term loan amount of £125 million and any RCF balance outstanding is to be repaid on 15 February 2018. The interest rate payable on the term loan at 26 December 2015 is Libor plus a margin of 3.00% (2014: 4.00%).

The Senior Secured Notes and bank facilities are secured by fixed and floating charges over the assets of Bakkavor Finance (2) plc and its subsidiaries as governed by an Inter-creditor Agreement. The receivables securitisation is secured by floating charges over the assets of Bakkavor Central Finance Limited.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

24 BORROWINGS CONTINUED

£ million	26 December 2015	27 December 2014
Bank overdrafts	0.1	1.3
Bank loans	149.8	11.4
Receivables securitisation	(0.2)	(0.4)
8.25% Senior Secured Notes	195.8	337.0
8.75% Senior Secured Notes	135.2	144.9
	480.7	494.2
Borrowings repayable as follows:		
On demand or within one year	14.9	8.8
In the second year	7.8	8.7
In the third to fifth years inclusive	458.0	328.6
Over five years	–	148.1
	480.7	494.2
Analysed as:		
Amount due for settlement within 12 months (shown within current liabilities)	14.9	8.8
Amount due for settlement after 12 months	465.8	485.4
	480.7	494.2

The Group has not drawn against the receivables facility as at 26 December 2015 (2014: £nil) and as such the £(0.2) million (2014: £(0.4) million) receivables securitisation credit represents unamortised fees.

The following table is an analysis of the Group's borrowings by currency:

£ million	26 December 2015	27 December 2014
Borrowings by currency		
GBP	480.7	489.5
Euro	–	4.5
RMB	–	0.2
	480.7	494.2

	26 December 2015 %	27 December 2014 %
The weighted average interest rates paid were as follows:		
Bank overdrafts	–	2.08
Senior Secured Notes and bank loans	6.97	8.29

The Group has a £63.2 million (2014: £63.2 million) interest rate swap in place at 26 December 2015, which matures in September 2016. Both the 8.25% and 8.75% Senior Secured Notes due in 2018 and 2020 respectively, were issued at a fixed rate. Interest on the Group's term loan, receivables securitisation and other borrowings are at floating rates, thus exposing the Group to cash flow interest rate risk.

The Directors estimate the fair value of the Group's borrowings are not materially different from their book value due to the interest rates currently available to the Group being broadly in line with the rates already agreed on the facilities.

The 8.75% Senior Secured Notes due in 2020 contain a call option from 15 June 2016 that under IAS 39 'Financial Instruments: Recognition and Measurement' should be accounted for as an embedded derivative and is required to be separately accounted for at fair value with the issued bond value carried at amortised cost. As at 26 December the fair value of the call option amounted to an asset of £10.7 million (2014: £nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

24 BORROWINGS CONTINUED

£ million	26 December 2015	27 December 2014
Analysis of net debt		
Cash and cash equivalents	97.0	24.6
Borrowings	(10.0)	(1.9)
Unamortised fees	2.4	3.9
Interest accrual	(7.3)	(10.8)
Finance leases	(0.5)	(0.4)
Debt due within one year	(15.4)	(9.2)
Borrowings	(480.7)	(493.3)
Unamortised fees	4.2	7.9
Fair value of call option	10.7	–
Finance leases	(4.4)	(1.7)
Debt due after one year	(470.2)	(487.1)
Group statutory net debt	(388.6)	(471.7)
Group statutory net debt	(388.6)	(471.7)
Unamortised fees	(6.6)	(11.8)
Interest accrual	7.3	10.8
Fair value of call option	(10.7)	–
Group operational net debt	(398.6)	(472.7)

25 DERIVATIVE FINANCIAL INSTRUMENTS

Held for trading derivatives that are not designated in hedge accounting relationships:

£ million	26 December 2015	27 December 2014
Foreign currency contracts – included in current assets	0.5	0.5
Foreign currency contracts	(0.5)	(2.4)
Interest rate contracts	(2.0)	(4.5)
Included in current liabilities	(2.5)	(6.9)
Total	(2.0)	(6.4)

Further details of derivative financial instruments are provided in note 30.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

26 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.

£ million	Accelerated tax depreciation	Fair value gains	Intangibles	Provisions	Impairment losses	Retirement benefit obligations	Total
At 29 December 2013	13.8	(1.5)	3.7	(0.5)	(0.9)	0.5	15.1
Charge/(credit) to income – continuing operations	2.6	0.2	(1.7)	–	–	0.8	1.9
Discontinued operations	–	–	(0.1)	–	–	–	(0.1)
At 27 December 2014	16.4	(1.3)	1.9	(0.5)	(0.9)	1.3	16.9
Charge/(credit) to income – continuing operations	0.1	2.9	(1.2)	–	0.1	0.8	2.7
Discontinued operations	(0.1)	–	–	–	–	–	(0.1)
Disposal of subsidiary	0.1	–	(0.3)	–	–	–	(0.2)
Credit to equity	–	–	–	–	–	(2.8)	(2.8)
At 26 December 2015	**16.5**	**1.6**	**0.4**	**(0.5)**	**(0.8)**	**(0.7)**	**16.5**

Certain deferred tax assets and liabilities have been offset and the net liability is shown as deferred tax liabilities in the statement of financial position.

At the statement of financial position date the Group had unused tax losses of £37.3 million (2014: £30.1 million) available for offset against future profits. Deferred tax assets are not recognised on the losses carried forward to the extent that it is not probable that the losses will be utilised.

The Group is not aware of any temporary differences associated with undistributed earnings of subsidiaries due to the availability of tax credits against such liabilities. The Group is in a position to control the timing of the reversal of any such temporary differences should they arise.

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

27 OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
£ million	**26 December 2015**	27 December 2014	**26 December 2015**	27 December 2014
Amounts payable under finance leases:				
Within one year	**0.8**	0.5	**0.5**	0.4
In the second to fifth years inclusive	**3.3**	1.8	**2.8**	1.4
Over five years	**1.7**	0.3	**1.6**	0.3
	5.8	2.6	**4.9**	2.1
Less: future finance charges	**(0.9)**	(0.5)		
Present value of lease obligations	**4.9**	2.1	**4.9**	2.1
Analysed as:				
Amount due for settlement within 12 months (shown within current liabilities)			**0.5**	0.4
Amount due for settlement after 12 months			**4.4**	1.7
			4.9	2.1

The weighted average lease term outstanding is 7.5 years (2014: 5.5 years). For the 52 weeks ended 26 December 2015, the weighted average effective borrowing rate was 4.73% (2014: 7.69%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The finance lease obligations are denominated in Sterling and the fair value of the Group's lease obligations approximates their carrying amount. The Group's obligations under finance leases are secured by the lessors' rights over the leased assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

28 TRADE AND OTHER PAYABLES

£ million	26 December 2015	27 December 2014
Trade payables	**203.5**	211.1
Social security and other taxation	**2.1**	2.0
Amounts owed to ultimate parent company	**0.2**	2.4
Other payables	**20.5**	28.0
Accruals	**163.8**	120.8
	390.1	364.3
Less: amounts due after one year		
Other payables	**(0.3)**	(0.2)
Trade and other payables due within one year	**389.8**	364.1

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 60 days (2014: 61 days). No interest is incurred against trade payables.

The Directors consider that the carrying amount of trade payables approximates to their fair value.

29 PROVISIONS

£ million	Onerous leases	Dilapidation provisions	Total
At 29 December 2013	1.7	10.3	12.0
Utilisation of provision	(0.2)	–	(0.2)
Unwinding of discount	–	0.3	0.3
At 27 December 2014	1.5	10.6	12.1
Included in current liabilities	0.6	–	0.6
Included in non-current liabilities	0.9	10.6	11.5
At 27 December 2014	1.5	10.6	12.1
Utilisation of provision	(0.6)	–	(0.6)
Increase of provision	0.1	2.2	2.3
Unwinding of discount	–	0.3	0.3
At 26 December 2015	**1.0**	**13.1**	**14.1**
Included in current liabilities	0.6	2.8	3.4
Included in non-current liabilities	0.4	10.3	10.7

Onerous lease provisions will be utilised over the term of the individual leases to which they relate.

Dilapidation provisions relate to obligations under various property leases to ensure that, at the end of the leases, the buildings are in the condition agreed with the landlords. The provisions will be utilised at the end of the individual lease terms to which they relate.

30 FINANCIAL INSTRUMENTS

CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of borrowings, as disclosed in note 24, cash and cash equivalents and equity attributable to owners of the parent, comprising issued capital, reserves and retained earnings.

The Group manages its capital by collating timely and reliable information to produce various internal reports such as capital expenditure and weekly net debt reports, which enable the Board of Directors to assess the Group's capital, and manage that capital effectively and in line with the Group's objectives. The gearing of the Group is constantly monitored and managed to ensure that the ratio between debt and equity is at an acceptable level and enables the Group to operate as a going concern and maximise stakeholders return.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

30 FINANCIAL INSTRUMENTS CONTINUED

GEARING RATIO

The gearing ratio at the period end was as follows:

£ million	26 December 2015	27 December 2014
Debt	485.6	496.3
Cash and cash equivalents	(97.0)	(24.6)
Net debt	388.6	471.7
Equity	357.1	322.9
Net debt to net debt plus equity	52.1%	59.4%

Debt is defined as long and short term borrowings, as disclosed in note 24 and finance leases payable in note 27.

SIGNIFICANT ACCOUNTING POLICIES

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2.

CATEGORIES OF FINANCIAL INSTRUMENTS

£ million	26 December 2015	27 December 2014
Financial assets		
Fair value through profit and loss:		
Derivative financial instruments	0.5	0.5
Call option on Senior Secured Notes due 2020	10.7	–
Loans and receivables at amortised cost:		
Trade receivables	154.5	167.2
Other receivables	18.3	14.6
Cash and cash equivalents	97.0	24.6
	281.0	206.9

£ million	26 December 2015	27 December 2014
Financial liabilities		
Fair value through profit and loss:		
Derivative financial instruments	2.5	6.9
Other financial liabilities at amortised cost:		
Trade payables	203.5	211.1
Amounts owed to ultimate parent company	0.2	2.4
Other payables	20.5	28.0
Borrowings	491.4	494.2
Finance leases	4.9	2.1
	723.0	744.7

The fair value of the financial assets approximates to their carrying value due to the short term nature of the receivables. Fair values for the derivative financial instruments and the call option on the Senior Secured Notes due 2020 have been determined as level 2 under IFRS 7 'Financial Instruments: Disclosures'.

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

FINANCIAL RISK MANAGEMENT

The Group is exposed to a number of financial risks such as access to and cost of funding, interest rate exposure, currency exposure and working capital management. The Group seeks to minimise these risks where possible and does this by constantly monitoring and reviewing the best use of derivative financial instruments. Use of financial instruments is governed by Group policies which are approved by the Board. The treasury function does not operate as a profit centre, makes no speculative transactions and only enters into or trades financial instruments to manage specific exposures.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

30 FINANCIAL INSTRUMENTS CONTINUED

MARKET RISK

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign currency risk, including:

- Interest rate swaps to mitigate the risk of rising interest rates.
- Forward foreign exchange contracts to hedge the exchange rate risk arising on revenues and purchases in foreign currencies.

Market risk exposures are supplemented by sensitivity analysis. There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

FOREIGN CURRENCY RISK MANAGEMENT

Foreign currency risk management occurs at a transactional level on revenues and purchases in foreign currencies and at a translational level in relation to the translation of overseas operations. All transactional risks, cash flow forecasts and related hedges are reviewed by the Group Hedging Committee and Group Treasury, at least quarterly, to monitor foreign exchange rates and confirm the appropriateness of the Group's hedged cover.

The Group's main foreign exchange risk is to the Euro and US dollar.

During the 52 week period to 26 December 2015, the Euro weakened against Sterling by 6.6%, with the closing rate at €1.3634 compared to €1.2787 at the prior period end. The average rate for the 52 week period to 26 December 2015 was €1.3771, a weakening of the Euro of 10.9% versus prior year.

In the same period the US dollar, strengthened against Sterling by 4.0%, with the closing rate at $1.4941 compared to $1.5562 at the prior period end. The average rate for the period to 26 December 2015 was $1.5284, a 7.2% strengthening of the US dollar versus the prior year.

The net foreign exchange impact on profit from transactions is a gain of £0.1 million (2014: gain of £0.4 million).

FOREIGN CURRENCY SENSITIVITY ANALYSIS

A sensitivity analysis has been performed on the financial assets and liabilities to a sensitivity of 10% increase/decrease in the exchange rates. A 10% increase/decrease has been used, and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive number below indicates an increase in profit where Sterling strengthens 10% against the relevant currency.

	Profit or (loss) 10% Strengthening		Profit or (loss) 10% Weakening	
£ million	**26 December 2015**	27 December 2014	**26 December 2015**	27 December 2014
Euro	**(4.0)**	(5.5)	**4.9**	6.8
USD	**(1.3)**	(2.3)	**1.6**	2.8
HKD	**(0.3)**	(0.1)	**0.2**	0.2
RMB	**(0.1)**	0.2	**0.1**	(0.3)

FOREIGN EXCHANGE CONTRACTS

It is the policy of the Group to enter into foreign exchange contracts to cover specific foreign currency payments and receipts. The Group also enters into foreign exchange contracts to manage the risk associated with anticipated sales and purchase transactions to minimise the exposure generated. The following table details Sterling foreign currency contracts outstanding as at 26 December 2015:

	Foreign currency (million)		Average exchange rate		Contract value (£ million)		Fair value (£ million)	
Outstanding contracts	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014
Net Euros:								
3 months or less	**33.1**	38.5	**1.35**	1.24	**24.6**	31.1	**(0.3)**	(1.2)
3 to 6 months	**21.3**	27.5	**1.34**	1.23	**15.9**	22.4	**(0.2)**	(0.6)
6 to 12 months	**20.7**	25.3	**1.36**	1.24	**15.0**	20.4	**0.3**	(0.4)
Over 12 months	**5.9**	2.0	**1.36**	1.25	**4.3**	1.6	**0.1**	–
Net US Dollars:								
3 months or less	**3.4**	30.4	**1.53**	1.58	**2.2**	19.2	**–**	0.3
3 to 6 months	**4.2**	2.5	**1.50**	1.67	**2.8**	1.5	**–**	0.1
6 to 12 months	**7.0**	2.4	**1.50**	1.60	**4.7**	1.5	**0.1**	0.1
Over 12 months	**3.0**	0.1	**1.49**	1.57	**2.1**	–	**–**	–
					71.6	97.7	**–**	(1.7)

FINANCIALS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

30 FINANCIAL INSTRUMENTS CONTINUED

FOREIGN EXCHANGE CONTRACTS CONTINUED

The following table details the Euro foreign currency contracts outstanding as at 26 December 2015:

	Foreign currency (million)		Average exchange rate		Contract value (€ million)		Fair value (€ million)		Fair value (£ million)	
Outstanding contracts	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014
Sell US Dollars:										
3 to 6 months	–	2.5	–	1.21	–	2.0	–	(0.1)	–	(0.1)
6 to 9 months	–	4.0	–	1.21	–	3.3	–	(0.1)	–	(0.1)
					–	5.3	–	(0.2)	–	(0.2)

INTEREST RATE RISK MANAGEMENT

The Group is exposed to interest rate risk on borrowings. The risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings and by the use of derivative financial instruments such as interest rate swaps to minimise the risk associated with variable interest rates. At the year end 12.9% of the Group's borrowings were covered by interest rate swaps (2014: 12.8%). The Group has in issue £192 million (2014: £332 million) of 8.25% and £150 million (2014: £150 million) of 8.75% fixed rate Senior Secured Notes that are both listed on the Irish Stock Exchange (see note 24). Use of interest rate derivatives is governed by Group policies which are approved by the Board.

INTEREST RATE SENSITIVITY ANALYSIS

Interest rate sensitivity analysis has been performed on the financial assets and liabilities to illustrate the impact on Group profits and equity if interest rates increased/decreased. This analysis assumes the liabilities outstanding at the period end were outstanding for the whole period. A 100 basis points increase or decrease has been used, comprising management's assessment of reasonably possible changes in interest rates.

£ million	**Profit/(loss) 26 December 2015**	Profit/(loss) 27 December 2014
Effects of 100 basis points increase in interest rate	**(0.9)**	0.5
Effects of 100 basis points decrease in interest rate	**0.9**	(0.5)

It is assumed that all other variables remained the same when preparing the interest rate sensitivity analysis.

INTEREST RATE SWAPS

Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on the fair value of issued fixed rate borrowings held and the cash flow exposures on the issued variable rate borrowings held. The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using the yield curves at the reporting date and the credit risk inherent in the contract, and is disclosed below. The average interest rate is based on the outstanding balances at the end of the financial year.

The following table details the notional principal amounts and remaining terms of interest rate swap contracts outstanding as at 26 December 2015:

	Average contract fixed interest rate		Notional principal amount		Fair value	
	2015 %	2014 %	**2015 £ million**	2014 £ million	**2015 £ million**	2014 £ million
Interest rate swaps						
9 to 12 months	**4.90**	4.90	**63.2**	63.2	**(2.0)**	(4.5)

The interest rate swaps settle on a quarterly basis. The floating rate on the interest rate swaps is 3 months Libor. The Group will settle the difference between fixed and floating interest rates on a net basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

30 FINANCIAL INSTRUMENTS CONTINUED

CREDIT RISK MANAGEMENT

Credit risk refers to the risk of financial loss to the Group if a counterparty defaults on its contractual obligations of the loans and receivables at amortised cost held in the statement of financial position.

The Group's main credit risk is attributable to its trade receivables. The Group's top four customers, all leading UK retailers, continue to represent more than 76% (2014: 76%) of the Group's revenue from continuing operations. These customers have favourable credit ratings and consequently reduce the credit risk for the Group's overall trade receivables.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with good credit ratings assigned by international credit rating agencies. Group policy dictates that Group deposits are shared between banks to spread the risk. Currently Group deposits are shared between banks that are counterparties in the Group's secured committed bank facilities. Bakkavor Finance (2) plc's current bank credit limit consists of a £150 million term loan (2014: £10 million) and a £70 million RCF facility (2014: £70 million), through a bank syndicate. Coöperatieve Rabobank U.A. is the syndicate agent of this facility and they manage the syndicate and participation with other counterparties.

Processes are in place to manage receivables and overdue debt and to ensure that appropriate action is taken to resolve issues on a timely basis. Credit control operating procedures are in place to review all new customers. Existing customers are reviewed as management become aware of changes of circumstances for specific customers. The amounts presented in the statement of financial position are net of appropriate allowance for doubtful trade receivables, specific customer risk and assessment of the current economic environment. The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk.

CALL OPTION ON 8.75% SENIOR SECURED NOTES DUE 2020

As at 26 December the fair value of the call option amounted to an asset of £10.7 million (2014: £nil) based on a credit spread of 368 basis points. For a 100 basis point increase in the credit spread the asset would reduce to £5.6 million. For a 100 basis point decrease in the credit spread the asset would increase to £16.4 million.

COMMODITY RISK MANAGEMENT

The Group acquires substantial amounts of raw materials for its operations, including dairy, wheat and rapeseed oil. The Group is exposed to commodity price and supply risks for these raw materials. The Group takes action to reduce overall material costs and exposure to price fluctuations by sourcing raw materials from suppliers all over the world, thereby decreasing geographic risk and also frequently tenders to benchmark market prices. In general our requirements are managed using contracts for periods of between three to twelve months forward. The Group also manage any local currency exposure in line with agreed contracts.

LIQUIDITY RISK MANAGEMENT

Liquidity risk refers to the risk that the Group may not be able to fund the day to day running of the Group. The Group manages liquidity risk by monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities. The Group also monitors the drawdown of borrowings against the available banking facilities and reviews the level of reserves. Liquidity risk management ensures sufficient borrowings funding is available for the Group's day to day needs. Group policy is to maintain reasonable headroom of unused committed bank facilities in a range of maturities at least 12 months beyond the period end.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

30 FINANCIAL INSTRUMENTS CONTINUED

MATURITY PROFILE OF FINANCIAL LIABILITIES

The following table illustrates the Group's remaining contractual maturity for its financial liabilities when they fall due.

£ million	26 December 2015	27 December 2014
Due within one year:		
Trade payables	203.5	211.1
Other payables	20.4	30.2
Derivative financial instruments	2.5	6.9
Borrowings	10.0	1.9
Finance leases	0.5	0.4
Interest on borrowings	33.7	11.9
Total due within one year	270.6	262.4
In the second to fifth years inclusive:		
Other payables	0.3	0.2
Borrowings	481.9	344.8
Finance leases	2.8	1.3
Interest on borrowings	75.4	120.7
Total due in the second to fifth years	560.4	467.0
Due after five years:		
Borrowings	–	150.0
Finance leases	1.6	0.4
Interest on borrowings	–	6.6
Total due after five years	1.6	157.0

The weighted average interest rates for the Group's borrowings are found in note 24 and in note 27 for finance leases.

31 SHARE CAPITAL AND RESERVES

SHARE CAPITAL

£ million	26 December 2015	27 December 2014
Issued and fully paid:		
55,258 (2014: 55,258) Ordinary shares of £1 each	0.1	0.1

SHARE PREMIUM

The share premium account represents amounts received by the Company over and above the nominal value of the shares issued.

MERGER RESERVE

The incorporation of Bakkavor Finance (2) plc as an intermediate holding company of the Group in 2011 was accounted for using the principles of merger accounting.

CAPITAL RESERVE

The capital reserve of £4.0 million arose in 2009 following the capitalisation of an inter-company balance between Bakkavor London Limited and Bakkavor Group ehf.

TRANSLATION RESERVE

The translation reserve represents foreign exchange rate differences arising on the consolidation of the Group's foreign operations. The assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the statement of financial position date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in the translation reserve.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

32 NON-CONTROLLING INTERESTS

The table below provides a reconciliation of the Group's material non-controlling interest relating to Italpizza S.r.l, which was sold on 14 July 2015. Note 33 provides further information on the disposal of Italpizza S.r.l.

£ million	
Cost of investment at 7 May 2014	8.5
Share of profit for the period	0.7
Exchange differences	(0.4)
Balance at 27 December 2014	8.8
Share of profit for the period	1.3
Disposal of subsidiary	(8.0)
Dividends paid	(1.3)
Exchange differences	(0.8)
Balance at 26 December 2015	–

33 DISPOSALS

2015

DISPOSAL OF SUBSIDIARY

As referred to in note 14, on 14 July 2015 the Group completed the sale of its remaining 60% stake in Italpizza S.r.l, its Italian Pizza manufacturing business, to Dreamfood S.r.l. for a cash consideration of £22.0 million (€31.0 million). This transaction resulted in a profit on disposal of £10.4 million being recorded in the income statement within discontinued operations.

The net assets of Italpizza S.r.l on the date of disposal were as follows:

£ million	14 July 2015
Goodwill	13.9
Other intangible assets	1.4
Property, plant and equipment	3.3
Deferred tax asset	0.1
Inventories	5.1
Trade and other receivables	13.8
Cash and cash equivalents	1.5
Trade and other payables	(10.6)
Corporation tax payable	(1.0)
Borrowings	(7.7)
Deferred tax liability	(0.3)
Derivative financial instruments	(0.1)
Net assets	19.4
Group's 60% share of net assets	11.6
Profit on disposal	10.4
Total cash consideration	22.0
The cash inflow arising on disposal of the business was as follows:	
Total cash consideration	22.0
Cash disposed of with business	(1.5)
Net cash consideration received	20.5

DISPOSAL OF ASSOCIATE

On 9 December 2015, the Group sold its 27.5% share in its associate Manor Fresh Limited, a supplier of fresh produce based in the United Kingdom for a cash consideration of £6.0 million. The transaction has resulted in a profit on sale of associate of £5.2 million being recorded in the income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

33 DISPOSALS CONTINUED

2014

DISPOSAL OF INVESTMENT

On 7 May 2014, the Group completed the sale of 40% of its 100% holding in Italpizza S.r.l for a total cash consideration of €9.0 million (£7.4 million). This transaction was accounted for as an equity transaction as the Group has decreased its stake in an existing subsidiary without any changes in control. The Group incurred disposal costs of £0.1 million, resulting in a net cash consideration of £7.3 million. The amount recognised directly within equity was £1.2 million.

DISPOSAL OF SUBSIDIARIES

On 13 January 2014, the Group completed the sale of Spring Valley Foods, its South African Prepared Fruit Business for a cash consideration of ZAR 110.0 million (£6.6 million). The Group incurred disposal costs of £0.6 million relating to this disposal. The transaction resulted in a profit on disposal of £1.9 million, of which £1.7 million related to the recycling of foreign exchange losses, being recorded in the income statement.

In March 2014, the Group incurred and paid costs of £0.1 million, relating to the Czech business Heli Foods Fresh A.S. which was disposed of by the Group in December 2013.

The Group therefore recorded a net profit on disposal of £1.8 million, relating to the sale of both businesses.

34 ACQUISITIONS

On 12 January 2015, the Group completed the acquisition of the trade and assets of B. Robert's Foods, a private label fresh prepared foods manufacturer based in Charlotte, North Carolina in the Unites States of America for a cash consideration of £19.6 million (US$ 30.5 million). The primary reason for the acquisition was to increase the Group's presence in the US.

The amounts recognised in respect of the fair value of the identifiable assets acquired and liabilities assumed are as set out in the table below:

£ million	
Other intangible assets	3.2
Property, plant and equipment	1.0
Inventories	0.9
Net identifiable assets acquired	5.1
Goodwill	14.5
Total consideration	19.6
The cash outflow arising on acquisition of the business was as follows:	
Total cash consideration	19.6

The results of B. Robert's Foods have been consolidated in the Group's consolidated income statement from 12 January 2015 and contributed £22.3 million of revenue and profit of £2.9 million to the Group's profit for the period.

If the acquisition had been completed on the first day of the financial period, Group revenues would have been £1,675.3 million and Group profit would have been £53.9 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

35 NOTES TO THE STATEMENT OF CASH FLOWS

£ million	26 December 2015	27 December 2014
Operating profit – continuing operations	89.6	62.3
– discontinued operations	15.3	4.8
	104.9	67.1
Adjustments for:		
Share of results of associates	(0.8)	(1.0)
Depreciation of property, plant and equipment	35.9	36.0
Amortisation of intangible assets	6.1	8.7
Loss/(profit) on disposal of property, plant and equipment	0.2	(1.0)
Profit on disposal of subsidiaries (note 33)	(10.4)	(1.8)
Profit on disposal of associate (note 33)	(5.2)	–
Impairment of assets	–	4.1
Net retirement benefits charge less contributions	(3.8)	(3.8)
Operating cash flows before movements in working capital	126.9	108.3
Decrease/(increase) in inventories	1.7	(5.6)
Decrease/(increase) in receivables	3.2	(12.8)
Increase in payables	41.0	46.7
(Decrease)/increase in exceptional creditor	(1.7)	0.8
Increase/(decrease) in provisions	2.0	(0.3)
Cash generated by operations	173.1	137.1
Income taxes paid	(18.2)	(1.0)
Interest paid	(53.3)	(49.7)
Net cash from operating activities	101.6	86.4

36 CONTINGENT LIABILITIES AND COMMITMENTS

The Group may from time to time, and in the normal course of business, be subject to claims from customers and counterparties. The Group regularly reviews all of these claims to determine any possible financial loss to the Group. No provision was considered necessary in the consolidated financial statements. In addition, there are a number of legal claims or potential claims against the Group, the outcome of which cannot at present be foreseen. Provision has been made for all probable liabilities.

As at 26 December 2015 the Group had purchase commitments for the next 12 months to guarantee supply and price of raw materials of £112.5 million (2014: £115.9 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

37 OPERATING LEASE ARRANGEMENTS

THE GROUP AS LESSEE

£ million	2015	2014
Continuing operations		
Minimum lease payments under operating leases recognised as an expense in the period	12.4	11.8

At the statement of financial position date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	Land and buildings		Other	
£ million	26 December 2015	27 December 2014	26 December 2015	27 December 2014
Operating leases which expire:				
Within one year	7.7	7.1	3.6	3.6
Within two to five years	25.6	26.5	5.9	5.0
After five years	51.0	42.1	–	0.1
	84.3	75.7	9.5	8.7

The Group leases various offices and operational facilities under non-cancellable operating lease arrangements. The leases have various terms, escalation clauses and renewal rights. The Group also leases plant and machinery under non-cancellable operating lease agreements.

38 RETIREMENT BENEFIT SCHEMES

The Group operates a number of pension schemes in the UK and overseas. These schemes are either trust or contract based and have been set up in accordance with appropriate legislation. The assets of each of the pension schemes are held separately from the assets of the Company.

In the UK, the two main schemes are a defined contribution scheme which is open to all UK employees joining the Group (full or part time) and the other is the Bakkavor Pension Scheme, a funded defined benefit scheme which provides benefits on a final salary basis and was closed to future accrual in March 2011.

Pension costs charged in arriving at profit on ordinary activities before taxation were:

£ million	2015	2014
UK defined benefit scheme net charge	0.7	0.8
UK defined contribution scheme net charge	5.9	6.1
Overseas net charge	0.1	0.2
Total charge	6.7	7.1

DEFINED CONTRIBUTION SCHEMES

The total cost charged to income of £6.0 million (2014: £6.3 million) represents contributions payable to these schemes by the Group at rates advised by the Group to all employees, subject to the minimum requirements set out in legislation. No amounts were owing at the period end for the defined contribution schemes (2014: £nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

38 RETIREMENT BENEFIT SCHEMES CONTINUED

DEFINED BENEFIT SCHEMES

A full actuarial valuation of plan assets and the present value of the defined benefit obligation for funding purposes was carried out at 31 March 2013. The results were updated for IAS 19 'Employee Benefits' purposes to 26 December 2015 by a qualified independent actuary with Willis Towers Watson. The projected unit cost method was used to value the liabilities.

The major assumptions used in this IAS 19 valuation were:

	26 December 2015	27 December 2014
Future pension increases (majority of liabilities)	3.00%	3.00%
Discount rate applied to scheme liabilities	3.75%	3.85%
Inflation assumption (CPI)	2.15%	2.15%

The mortality table is based on scheme specific postcode fitted SAPS tables with a 102% multiplier for male members and a 108% multiplier for female members. Long cohort improvements are applied from 2002 to 2010. Future improvements are in line with the CMIB core 2013 improvements model with a 1.0% pa long term trend, giving life expectancies as follows:

	Males expected future lifetime 2015	Males expected future lifetime 2014	Females expected future lifetime 2015	Females expected future lifetime 2014
Member aged 45	42.1	41.9	44.3	44.1
Member aged 65	22.4	22.3	24.4	24.3

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

Assumption	Change in assumption	Approximate impact on scheme liabilities
Discount rate	Increase/decrease by 1.0%	Decrease £39.7 million/increase £50.1 million
Rate of inflation	Increase/decrease by 0.5%	Increase £15.6 million/decrease £14.7 million
Life expectancy	Members assumed to be one year younger than their actual age	Increase £7.1 million

Amounts recognised in income in respect of these defined benefit schemes are as follows:

£ million	2015	2014
Past service cost	–	0.1
Net interest on net defined benefit (liability)/asset	(0.3)	(0.3)
Administration costs incurred during the period	1.0	1.0
Total charge	0.7	0.8

All of the charges for each period presented have been included in total administrative expenses. The actuarial loss of £14.4 million (2014: £0.3 million gain) has been reported in other comprehensive income.

The actual return on scheme assets was a decrease of £1.7 million (2014: £31.7 million increase).

The amount included in the statement of financial position arising from the Group's obligations in respect of its defined benefit retirement benefit schemes is as follows:

£ million	26 December 2015	27 December 2014
Fair value of scheme assets	211.2	220.2
Present value of defined benefit obligations	(215.1)	(213.5)
(Deficit)/surplus in scheme	(3.9)	6.7
Related deferred taxation asset/(liability)	0.7	(1.3)
	(3.2)	5.4

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

38 RETIREMENT BENEFIT SCHEMES CONTINUED

The assumptions used are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

Movements in the present value of defined benefit obligations (DBO) were as follows:

£ million	26 December 2015	27 December 2014
Opening balance	(213.5)	(188.6)
Interest cost on the DBO	(8.1)	(8.5)
Benefits paid from scheme assets	10.8	6.3
Actuarial loss – demographic assumptions	–	(0.2)
Actuarial loss – financial assumptions	(4.3)	(22.4)
Past service cost	–	(0.1)
Closing balance	(215.1)	(213.5)

Movements in the fair value of scheme assets were as follows:

£ million	26 December 2015	27 December 2014
Opening balance	220.2	191.2
Interest income on scheme assets	8.4	8.8
Return on scheme assets (less)/greater than discount rate	(10.1)	22.9
Contributions from the sponsoring Companies	4.5	4.6
Benefits paid from scheme assets	(10.8)	(6.3)
Administrative costs paid	(1.0)	(1.0)
Closing balance	211.2	220.2

The analysis of the scheme assets at the statement of financial position date was as follows:

	Fair value of assets	
£ million	26 December 2015	27 December 2014
Structured UK equity	5.4	6.6
Overseas equity	31.0	32.9
High yield bonds	26.3	20.6
Property	–	9.1
Corporate bonds	45.6	48.7
Fixed interest government bonds	–	8.2
Index linked government bonds	63.4	65.0
Cash	21.7	17.6
Other	17.8	11.5
	211.2	220.2

Structured UK equity provides exposure to UK equities but is a derivative based solution and not a direct investment in equities.

The scheme assets also include swaps to hedge liability inflation and interest rate risks. The swap value has been included in the value of the gilt securities used as collateral for the swaps. Corporate bonds and cash are also used as collateral for the swaps in place.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

38 RETIREMENT BENEFIT SCHEMES CONTINUED

The Scheme invests in two multi-asset funds which invest in a wide range of assets including alternative asset classes. In the summary above, the multi-asset funds have been split into the relevant constituent asset classes.

The Bakkavor Pension Scheme operates under trust law and is managed and administered by the Trustee on behalf of the members in accordance with the terms of the Trust Deed and Rules and relevant legislation. The Scheme is subject to the scheme specific funding requirements as outlined in UK legislation. The most recent scheme specific funding valuation was at 31 March 2013.

The Group and the Trustees work closely together in matters concerning the Bakkavor Pension Scheme. Regular meetings and correspondence on matters concerning the Scheme are shared in an open manner between both parties.

The Bakkavor Pension Scheme's current investment strategy adopts a policy of broadly 55% in growth seeking assets and 45% in bonds, although the proportions can vary significantly in order to allow for advanced liability hedging techniques. A large proportion of both interest and inflation risk is hedged. The strategy is intended to reduce the risk of significant changes to the funding level by hedging key risks, while retaining a proportion of return seeking assets to minimise long term costs by maximising return within an acceptable level of risk. The Scheme's assets are held separately from those of the Group.

The weighted average duration of the Bakkavor Pension Scheme is approximately 21 years.

The actual amount of employer contributions expected to be paid to the pension scheme during 2016 is £2.6 million. Employer contributions, except for deficit reduction contributions, ceased in March 2011 when the scheme closed to future accrual. Employee contributions also ceased at this date.

Following the closure of the Scheme to future accrual in March 2011, the Group and the Trustee agreed that members who were active members of the Scheme at the date of closure would remain entitled to access early retirement on preferential terms as long as they remained in employment within the Group. The value of members accessing these preferential terms is not included in the defined benefit obligation as this benefit is not funded for in advance. If members choose to access this benefit an employer contribution is made to the Scheme to reflect the increase in expected future pension costs. In 2015 the total contributions made in respect of this benefit were £nil (2014: £0.1 million).

The current deficit reduction contributions were agreed between the Group and the Trustees as part of the 2013 triennial valuation. The deficit contributions will be paid over a six year recovery period ending on 31 March 2020. The recovery contributions are paid monthly and the agreed rates were £4.5 million in the year ending March 2016, £2.0 million in the year ending March 2017 and £1.0 million per annum in subsequent years until 31 March 2020. £4.5 million was also paid over the year to 31 March 2015.

39 RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Company and its subsidiaries and associates are disclosed in the Company's separate financial statements.

TRADING TRANSACTIONS

During the period, Group companies entered into the following transactions with related parties who are not members of the Group:

	Royalty charge		Amounts owed from related parties		Amounts owed to related parties	
£ million	**2015**	2014	**2015**	2014	**2015**	2014
Bakkavor Group Limited	**1.2**	1.2	**–**	–	**0.2**	2.4
Bakkavor Group ehf.	**–**	–	**0.1**	0.1	**0.1**	0.1

The amount owed from Bakkavor Group ehf of £0.1 million (2014: £0.1 million) is included within the current assets section under Trade and other receivables. Amounts owed to Bakkavor Group ehf of £0.1 million (2014: £0.1 million) and the royalty charge to Bakkavor Group Limited, of £0.2 million (2014: £2.4 million), are included in the current liabilities section within Trade and other payables. During the 52 week period ended 26 December 2015, £3.4 million (2014: £nil) of accrued royalty charges were paid to Bakkavor Group Limited.

Loans between the Group and related parties are all based on varying terms of interest. Related party loans are repayable between one and five years and incur interest based on the three month Libor rate plus 3%.

The amounts outstanding are unsecured. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of the amounts owed by related parties.

REMUNERATION OF KEY MANAGEMENT PERSONNEL

The remuneration of the Directors and senior management, who are the key management personnel of the Company, is set out below in aggregate for each of the categories specified in IAS 24 'Related Party Disclosures'.

£ million	**2015**	2014
Short-term employee benefits	**5.4**	5.5
Post-employment benefits	**0.2**	0.3
	5.6	5.8

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

40 EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

On 25 January 2016, the Group confirmed that it had been informed that Bakk AL Holdings Limited, a company owned by Agust and Lydur Gudmundsson and funds managed by The Baupost Group L.L.C. had purchased the shares in the Bakkavor Group then owned by BG12 slhf and certain other shareholders for £163 million. Accordingly, Bakk AL Holdings Limited now owns approximately 89% of the issued share capital in the Group.

On 28 January 2016, the Group announced that it had elected to redeem £75 million of the existing 8.25% Senior Secured Notes due in 2018. The redemption will take place on 29 February 2016.

41 CONTROLLING PARTY

The Company's ultimate parent company and ultimate controlling party is Bakkavor Group Limited, a Company registered in the United Kingdom. The largest Group in which the results of the Group are consolidated is that headed by Bakkavor Group Limited. It has included this Group in its group financial statements, copies of which are available from 5th Floor, 3 Sheldon Square, Paddington Central, London, W2 6HY, United Kingdom. As stated in note 40 Bakk AL Holdings Limited became the ultimate parent and controlling company on 25 January 2016.

The Company's immediate parent company is Bakkavor Finance (1) Limited.

COMPANY INCOME STATEMENT

52 WEEKS ENDED 26 DECEMBER 2015

£ million	Notes	52 weeks ended 26 December 2015	52 weeks ended 27 December 2014
Continuing operations			
Other administrative costs		–	(0.6)
Royalty charge		**(1.2)**	(1.2)
Operating loss		**(1.2)**	(1.8)
Investment revenue	4	**0.1**	0.1
Finance costs	5	**(50.3)**	(47.9)
Other gains	6	**10.7**	–
Loss before tax		**(40.7)**	(49.6)
Tax	7	**49.4**	49.6
Profit and total comprehensive income for the period		**8.7**	–

The accompanying notes are an integral part of this income statement.

The Company has no recognised gains and losses other than the result above, and therefore no separate statement of comprehensive income is presented.

COMPANY STATEMENT OF CHANGES IN EQUITY

52 WEEKS ENDED 26 DECEMBER 2015

£ million	Share capital	Share premium	Retained earnings	Total equity
Balance at 28 December 2013 and 27 December 2014	0.1	315.2	(34.0)	281.3
Profit for the period	–	–	8.7	8.7
At 26 December 2015	**0.1**	**315.2**	**(25.3)**	**290.0**

COMPANY STATEMENT OF FINANCIAL POSITION

26 DECEMBER 2015

£ million	Notes	26 December 2015	27 December 2014
Non-current assets			
Investment in subsidiaries	9	929.4	929.4
Current assets			
Amounts due from other group companies	13	3.9	53.0
Current liabilities			
Other payables		(0.1)	(0.6)
Borrowings	8	(22.8)	(42.7)
Amounts due to other group companies	13	(152.6)	(175.2)
		(175.5)	(218.5)
Non-current liabilities			
Borrowings	8	(465.8)	(482.6)
Deferred tax liability		(2.0)	–
		(467.8)	(482.6)
Net assets		290.0	281.3
Equity			
Share capital	12	0.1	0.1
Share premium		315.2	315.2
Retained earnings		(25.3)	(34.0)
Total equity		290.0	281.3

The financial statements of Bakkavor Finance (2) plc, company number 07501697, and the accompanying notes, which form an integral part of the Company financial statements, were approved by the Board of Directors on 24 February 2016. They were signed on behalf of the Board of Directors by:

A Gudmundsson
Director

COMPANY STATEMENT OF CASH FLOWS

52 WEEKS ENDED 26 DECEMBER 2015

£ million	52 weeks ended 26 December 2015	52 weeks ended 27 December 2014
Operating loss	(1.2)	(1.8)
Decrease in receivables	100.5	55.6
(Decrease)/increase in payables	(23.5)	9.2
Cash generated by operations	75.8	63.0
Interest paid	(48.2)	(44.3)
Net cash generated from operating activities	27.6	18.7
Investing activities:		
Interest received	0.1	0.1
Financing activities:		
Increase in borrowings	140.0	25.4
Repayment of borrowings	(167.7)	(44.2)
Net cash used in financing activities	(27.7)	(18.8)
Net cash and cash equivalents	–	–
Cash and cash equivalents at beginning of period	–	–
Cash and cash equivalents at end of period	–	–

NOTES TO THE COMPANY FINANCIAL STATEMENTS

52 WEEKS ENDED 26 DECEMBER 2015

1 GENERAL INFORMATION

Bakkavor Finance (2) plc (the 'Company') is a Public Limited Company whose ultimate parent company and controlling party is Bakkavor Group Limited, a company registered in the United Kingdom.

2 SIGNIFICANT ACCOUNTING POLICIES

The separate financial statements of the Company are presented as required by the Companies Act 2006. As permitted by that Act, the separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB). The financial statements have also been prepared in accordance with IFRSs adopted by the European Union.

The financial statements have been prepared on the historical cost basis. The principal accounting policies adopted are the same as those set out in note 2 to the consolidated financial statements except as set out below.

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment.

Going concern for the Company has been considered along with the Group by the Directors. This consideration is set out in note 3 to the consolidated financial statements.

3 EMPLOYEES, DIRECTORS AND AUDIT REMUNERATION

Audit fees of £75,000 (2014: £73,000) for the period ended 26 December 2015 have been borne by fellow group company, Bakkavor Foods Limited. The Company has no employees and payments to Directors for the periods ended 26 December 2015 and 27 December 2014 have been borne by fellow group company, Bakkavor Foods Limited.

4 INVESTMENT REVENUE

£ million	**2015**	2014
Interest on bank deposits	**0.1**	0.1

5 FINANCE COSTS

£ million	**2015**	2014
Interest on borrowings	**37.8**	43.7
Amortisation of refinancing costs	**6.3**	3.6
Call premium for 2018 Senior Secured Notes	**5.8**	–
Interest on loans from other group companies	**0.4**	0.6
	50.3	47.9

6 OTHER GAINS

£ million	**2015**	2014
Change in fair value of call option	**10.7**	–

NOTES TO THE COMPANY FINANCIAL STATEMENTS

CONTINUED

7 TAX

The credit for the period can be reconciled to the loss per the income statement as follows:

	2015		2014	
	£ million	%	£ million	%
Loss before tax	(40.7)	(100.0)	(49.6)	(100.0)
Tax credit at the blended UK corporation tax rate of 20.25% (2014: 21.5%)	8.2	20.2	10.7	21.5
Group relief surrendered at tax rate in excess of 20.25% (2014: 21.5%)	41.1	101.0	38.9	78.5
Deferred tax change in rate	0.1	0.2	–	–
Tax credit and effective tax rate for the period	49.4	121.4	49.6	100.0

8 BORROWINGS

£ million	26 December 2015	27 December 2014
Bank overdraft	7.8	35.5
Bank loans	149.8	7.9
8.25% Senior Secured Notes	195.8	337.0
8.75% Senior Secured Notes	135.2	144.9
	488.6	525.3
Borrowings repayable as follows:		
On demand or within one year	22.8	42.7
In the second year	7.8	6.6
In the third to fifth years inclusive	458.0	327.9
Over five years	–	148.1
	488.6	525.3
Analysed as:		
Amount due for settlement within 12 months (shown within current liabilities)	22.8	42.7
Amount due for settlement after 12 months	465.8	482.6
	488.6	525.3

BORROWINGS BY CURRENCY

£ million	26 December 2015	27 December 2014
GBP	488.5	525.3
Euro	0.1	–
	488.6	525.3

The 8.75% Senior Secured Notes due in 2020 contain a call option from 15 June 2016 that under IAS 39 'Financial Instruments: Recognition and Measurement' should be accounted for as an embedded derivative and is required to be separately accounted for at fair value with the issued bond value carried at amortised cost. As at 26 December the fair value of the call option amounted to an asset of £10.7 million (2014: £nil).

9 INVESTMENTS IN SUBSIDIARIES

£ million	Investment in Group companies
Balance at 27 December 2014 and 26 December 2015	929.4

NOTES TO THE COMPANY FINANCIAL STATEMENTS

CONTINUED

10 SUBSIDIARIES

As at 26 December 2015, Bakkavor Finance (2) plc held investments in the share capital of the following companies:

Name	Place of registration and operation	Principal activity	Interest
Directly held investments:			
Bakkavor Finance (3) Limited	United Kingdom	Holding company	100%
Indirectly held investments:			
Bakkavor London Limited	United Kingdom	Holding company	100%
Bakkavor Estates Limited	United Kingdom	Property management	100%
Bakkavor Acquisitions (2008) Limited	United Kingdom	Holding company	100%
Bakkavor USA Inc	USA	Holding company	100%
Bakkavor USA Limited	United Kingdom	Holding company	100%
Bakkavor Foods USA Inc	USA	Manufacture of custom and private label savoury and bakery products	100%
Bakkavor Foods Holdings LLC	USA	Holding company	100%
Bakkavor Foods Canada Inc	Canada	Non-trading	100%
Bakkavor Invest Limited	United Kingdom	Holding company	100%
Bakkavor (Acquisitions) Limited	United Kingdom	Holding company	100%
Bakkavor Finance Limited	United Kingdom	Customer invoicing and financing of receivables	100%
Bakkavor Asia Limited	United Kingdom	Holding company	100%
Bakkavor China Limited	United Kingdom	Holding company	100%
Creative Food Group Limited	Hong Kong	Production and manufacture of salad products	100%
Creative Agriculture Holdings Limited	Hong Kong	Production and manufacture of salad products	100%
Jiangsu Creative Agriculture Produce Dev Co. Limited	China	Production and manufacture of salad products	100%
Nantong Creative Agriculture Dev Co. Limited	China	Production and manufacture of salad products	100%
Creative Food Holdings Limited	Hong Kong	Holding company	100%
Wuhan Creative Foods Co Limited	China	Production and manufacture of salad products	100%
Shanghai Creative Foods Co Limited	China	Production and manufacture of salad products	100%
Beijing Creative Foods Co. Limited	China	Production and manufacture of salad products	100%
Guangzhou Creative Food Co. Limited	China	Production and manufacture of salad products	100%
Bakkavor (Shanghai) Management Co. Limited	China	Holding company	100%
Xianyang Creative Food Co. Limited	China	Production and manufacture of salad products	100%
Fujian Creative Food Company Limited	China	Production and manufacture of salad products	100%
Gastro Primo Limited	Hong Kong	Preparation and marketing of fresh prepared foods	100%
Bakkavor Limited	United Kingdom	Holding company	100%
Bakkavor (Jersey) Limited	Jersey	Dormant holding company	100%
Bakkavor (Jersey Two) Limited	Jersey	Dormant holding company	100%
Geest Corporation Inc	USA	Dormant holding company	100%
Bakkavor Overseas Holdings Limited	United Kingdom	Non-trading	100%
Bv Foodservice Limited	United Kingdom	Distribution of fresh prepared foods	100%
Bakkavor Foods Limited	United Kingdom	Preparation and marketing of fresh prepared foods	100%
Bakkavor Pension Trustees Ltd	United Kingdom	Pension trustee holding company	100%
Bakkavor European Marketing BV	Netherlands	Holding company	100%
NV Vaco BV	Belgium	Preparation and marketing of fresh prepared foods	100%
Bakkavor Fresh Cook Limited	United Kingdom	Preparation and marketing of fresh prepared foods	100%
Anglia Crown Limited	United Kingdom	Preparation and marketing of fresh prepared foods	100%
English Village Salads Limited	United Kingdom	Non-trading	100%
Bakkavor Australia Pty Limited	Australia	Holding company	100%
Inferno Group Limited	United Kingdom	Production and distribution of fresh prepared foods	100%
Bakkavor Iberica S.L.U	Spain	Distribution	100%
Bakkavor Central Finance Limited	United Kingdom	Customer invoicing and financing of receivables	100%
Notsallow 256 Limited	United Kingdom	Dormant non-trading company	100%
Kent Salads Limited	United Kingdom	Dormant non-trading company	100%
Laurens Patisseries Limited	United Kingdom	Dormant non-trading company	100%

NOTES TO THE COMPANY FINANCIAL STATEMENTS

CONTINUED

10 SUBSIDIARIES CONTINUED

Name	Place of registration and operation	Principal activity	Interest
Hitchen Foods Limited	United Kingdom	Dormant non-trading company	100%
Bakkavor Brothers Limited	United Kingdom	Dormant non-trading company	100%
Cucina Sano Limited	United Kingdom	Dormant non-trading company	100%
Butterdean Products Limited	United Kingdom	Dormant non-trading company	100%
Exotic Farm Prepared Limited	United Kingdom	Dormant non-trading company	100%
Exotic Farm Produce Limited	United Kingdom	Dormant non-trading company	100%
Bakkavor Maroc	Morocco	Dormant non-trading company	100%

11 FINANCIAL INSTRUMENTS

FOREIGN CURRENCY RISK

The Company is not exposed to any significant foreign currency risk as principally all its borrowings are in Pounds Sterling.

INTEREST RATE RISK MANAGEMENT

The Company is exposed to interest rate risk on borrowings. The risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings. The Group uses derivative financial instruments such as interest rate swaps to minimise the risk associated with variable interest rates.

INTEREST RATE SENSITIVITY ANALYSIS

Interest rate sensitivity analysis has been performed on interest bearing Company borrowings of £187.1 million (2014: £21.3 million) to illustrate the impact on profits and equity if interest rates increased/decreased. This analysis assumes the liabilities outstanding at the period end were outstanding for the whole period. A 100 basis points increase or decrease has been used, comprising management's assessment of reasonably possible changes in interest rates.

£'000	26 December 2015 Profit/(loss)	27 December 2014 Profit/(loss)
Effects of 100 basis points increase in interest rate	(3.0)	(2.2)
Effects of 100 basis points decrease in interest rate	3.0	2.2

CREDIT RISK MANAGEMENT

CALL OPTION ON 8.75% SENIOR SECURED NOTES DUE 2020

As at 26 December the fair value of the call option amounted to an asset of £10.7 million (2014: £nil) based on a credit spread of 368 basis points. For a 100 basis point increase in the credit spread the asset would reduce to £5.6 million. For a 100 basis point decrease in the credit spread the asset would increase to £16.4 million.

CATEGORIES OF FINANCIAL INSTRUMENTS

£ million	26 December 2015	27 December 2014
Financial assets		
Fair value through profit and loss:		
Call option for Senior Secured Notes due 2020	10.7	–
Loans and receivables at amortised cost:		
Amounts due from other group companies	3.9	53.0
	14.6	53.0
Financial liabilities		
Other Financial liabilities at amortised cost:		
Other payables	0.1	0.6
Amounts due to other group companies	152.6	175.2
Borrowings	499.3	525.3
	652.0	701.1

The fair value of the call option on the Senior Secured Notes due 2020 has been determined as level 2 under IFRS 7 'Financial Instruments: Disclosures'. The fair value of the other financial assets and liabilities at amortised cost approximates to their carrying value.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

CONTINUED

12 SHARE CAPITAL

	26 December 2015		27 December 2014	
	Number	£ million	Number	£ million
Issued and fully paid:				
Ordinary shares of £1 each	**55,258**	**0.1**	55,258	0.1

13 RELATED PARTY TRANSACTIONS

TRANSACTIONS

During the period, the Company entered into the following transactions with related parties.

	Amounts owed by related parties		Amounts owed to related parties	
£ million	**2015**	2014	**2015**	2014
Group companies	**3.9**	53.0	**152.6**	175.2

Amounts owed to related parties consist of various corporate loans being £37.1 million (2014: £11.2 million) owed to Bakkavor London Limited, £115.3 million (2014: £161.6 million) owed to Bakkavor Foods Limited and £0.2 million (2014: £2.4 million) owed to Bakkavor Group Limited. During the 52 week period ended 26 December 2015, £3.4 million (2014: £nil) of accrued royalty charges were paid to Bakkavor Group Limited.

Amounts owed by related parties relate to Group tax relief of £3.9 million from various other group companies (2014: £49.6 million various group relief and £3.4 million owed by Bakkavor Central Finance Limited).

These amounts are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of the amounts owed by related parties.

Amounts are denominated in Sterling. All related party payables and receivables are held at amortised cost.

14 EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

On 25 January 2016, the Group confirmed that it had been informed that Bakk AL Holdings Limited, a company owned by Agust and Lydur Gudmundsson and funds managed by The Baupost Group L.L.C. had purchased the shares in the Bakkavor Group then owned by BG12 slhf and certain other shareholders for £163 million. Accordingly, Bakk AL Holdings Limited now owns approximately 89% of the issued share capital in the Group.

On 28 January 2016, the Group announced that it had elected to redeem £75 million of the existing 8.25% Senior Secured Notes due in 2018. The redemption will take place on 29 February 2016.

15 CONTROLLING PARTY

The Company's ultimate parent company and ultimate controlling party is Bakkavor Group Limited, a company registered in the United Kingdom. The largest group in which the results of the Company are consolidated is that headed by Bakkavor Group Limited and it has included the Company in its group financial statements. The smallest group into which the accounts are consolidated is Bakkavor Finance (2) plc. As stated in note 14 Bakk AL Holdings Limited became the ultimate parent and controlling company on 25 January 2016.

Copies of both the Bakkavor Group Limited and Bakkavor Finance (2) plc financial statements are available from 5th Floor, 3 Sheldon Square, Paddington Central, London, W2 6HY, United Kingdom.

The immediate parent of the Company is Bakkavor Finance (1) Limited.

COMPANY INFORMATION

DIRECTORS

A Gudmundsson
L Gudmundsson
B Bjarnason (resigned 22 January 2016)
H Lúðvígsson (resigned 22 January 2016)
G Sigurdsson (resigned 22 January 2016)

SECRETARY

S Witham

REGISTERED OFFICE

5th Floor
3 Sheldon Square
Paddington Central
London
W2 6HY

BANKERS

Barclays Bank PLC
Multinational Corporates
One Churchill Place
London
E14 5HP

AUDITOR

Deloitte LLP
Four Brindleyplace
Birmingham
B1 2HZ

No part of this Annual Report should form the basis of, or be relied on in connection with, any contract or commitment or investment decision whatsoever. The information contained in this Annual Report has not been independently verified and no representation or warranty, express or implied, is made as to, and no reliance should be placed on, the fairness, accuracy, completeness or correctness of the information or opinions contained herein. None of Bakkavor Finance (2) plc, any of its parent companies or subsidiaries, or any of its affiliates, directors, managers, officers, advisers or representatives shall have any liability whatsoever (in negligence or otherwise) for any loss howsoever arising from any use of this document or its contents or otherwise arising in connection with this Annual Report.

This Annual Report may include "forward looking statements" within the meaning of the U.S. securities laws and certain other jurisdictions, based on our current expectations and projections about future events. All statements other than statements of historical facts included in this Annual Report including, without limitation, statements regarding our future financial position, risks and uncertainties related to our business, strategy, capital expenditures, projected costs and our plans and objectives for future operations, may be deemed to be forward looking statements. These forward looking statements are subject to a number of risks and uncertainties. By their nature, forward looking statements involve known and unknown risks, uncertainties and other factors because they relate to events and depend upon circumstances that may or may not occur in the future. Although we believe that the expectations reflected in such forward looking statements are reasonable, we can give no assurance that such expectations will prove to be correct and that such statements are not guarantees of future performance because they are based on numerous assumptions. Any forward looking statement speaks only as at the date on which it is made and we undertake no obligation to publicly update or revise any forward looking statements, whether as a result of new information, future events or otherwise. The information contained in this Annual Report is provided as at the date of this Annual Report and is subject to change without notice.


BAKKAVOR GROUP HEAD OFFICE
5th Floor
3 Sheldon Square
Paddington Central
London W2 6HY
United Kingdom
Tel: +44 (0) 20 7266 6400

Registered in England as
Bakkavor Finance (2) plc No: 7501697

bakkavor.com