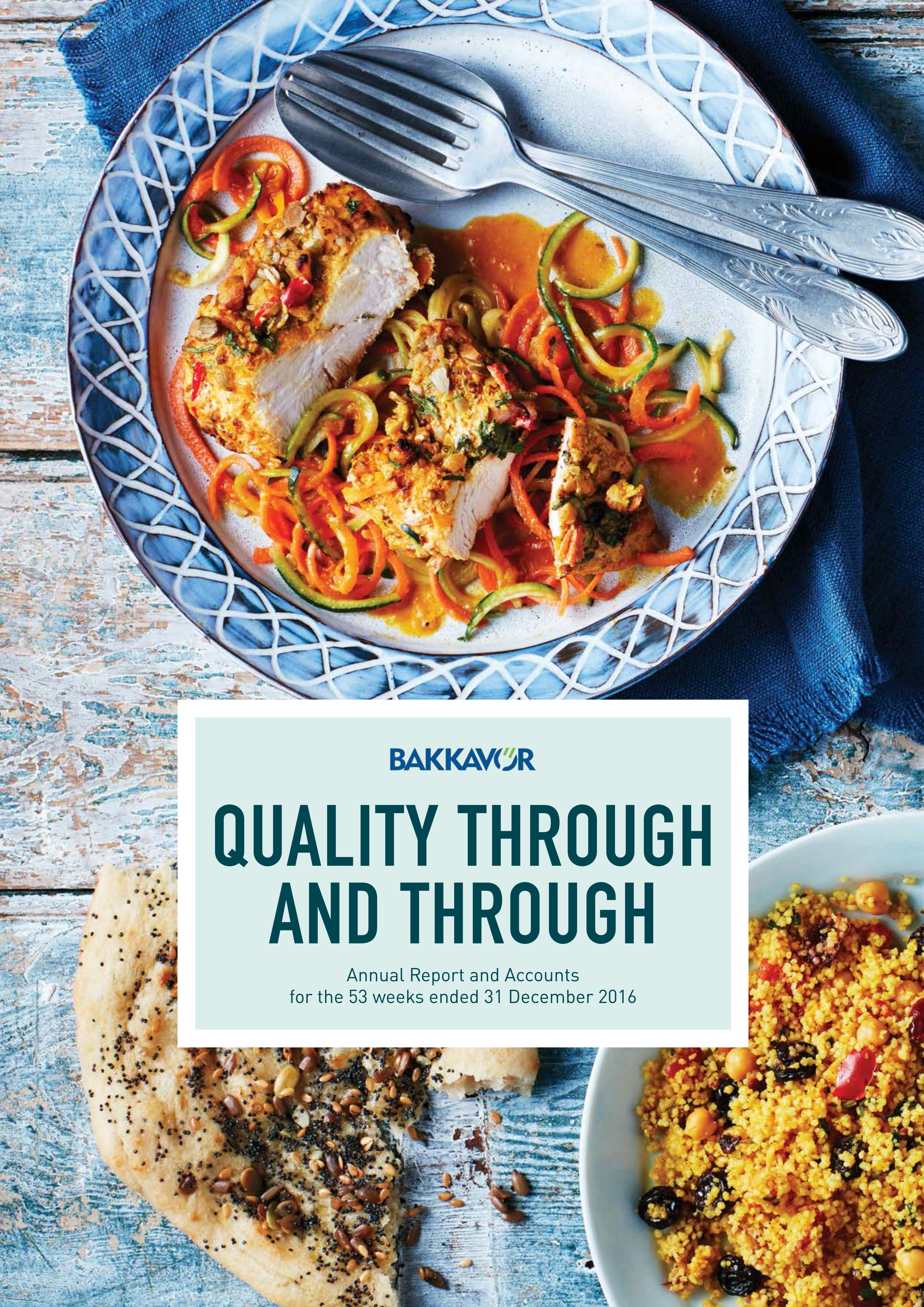
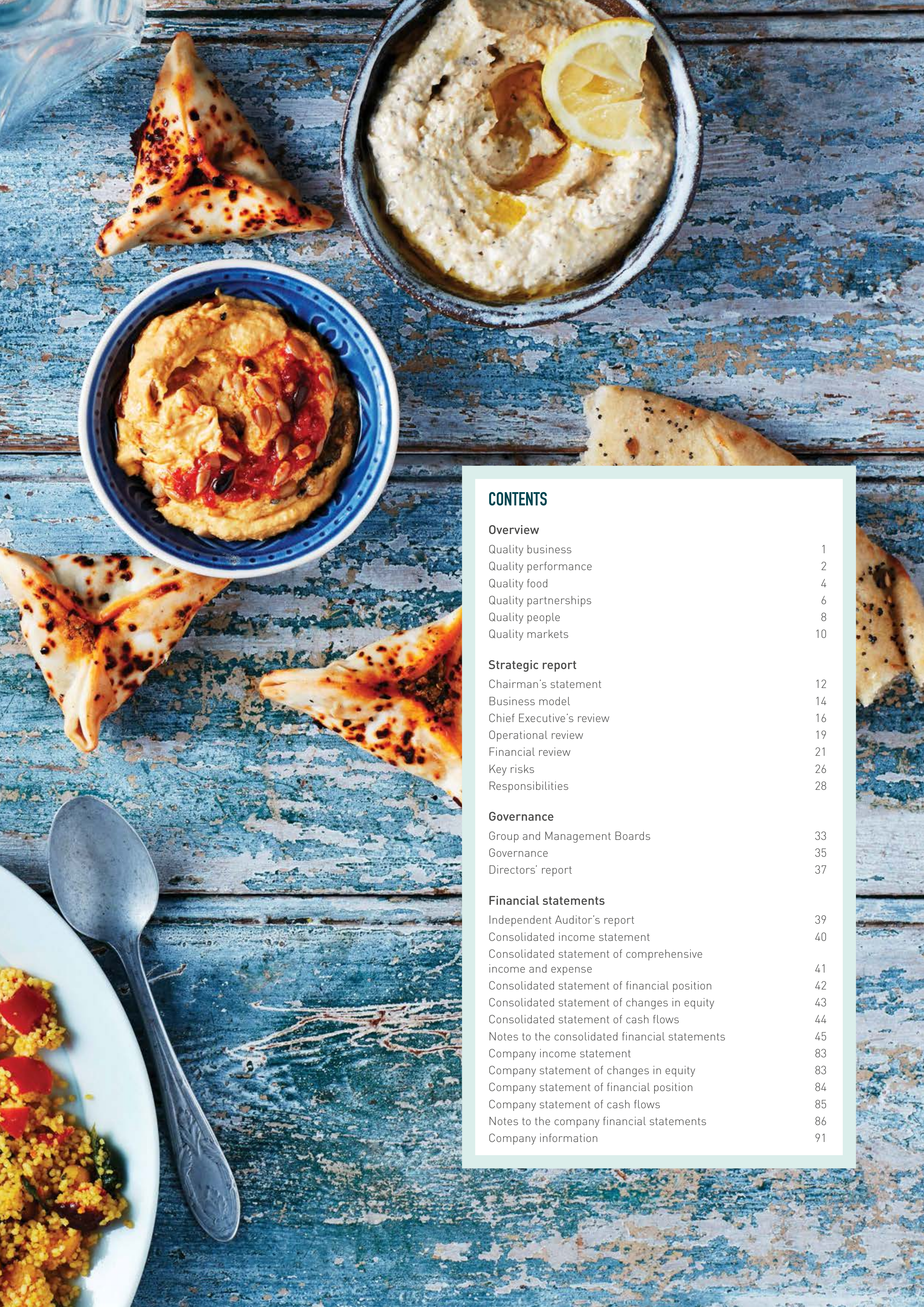


BAKKAVÖR

QUALITY THROUGH AND THROUGH

Annual Report and Accounts
for the 53 weeks ended 31 December 2016



CONTENTS

QUALITY BUSINESS

We create fresh prepared food in partnership with our leading retail and foodservice customers across the world. We are one of the largest international food manufacturers in this dynamic and fast-moving sector.

We pride ourselves on driving industry-leading standards for safety, quality, innovation and service.

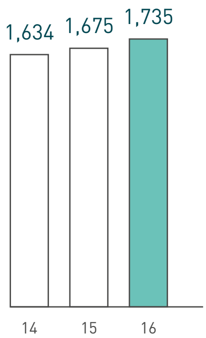
The way we have been doing business for the past 30 years sets us apart and enables us to deliver long-term sustainable value.

QUALITY PERFORMANCE

We are a leading global provider of fresh prepared food, producing over 5,000 products across 42 facilities in the UK, the USA and China. In 2016, we drew on 30 years' experience to deliver another set of strong results.

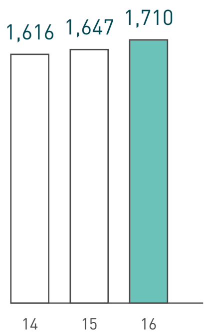
Group revenue* (52 weeks) (£m) KPI

+3.6%



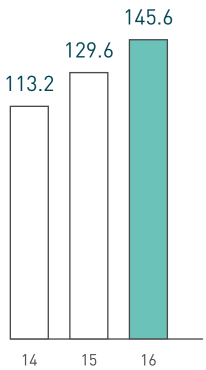
Like-for-like revenue[1] (£m) KPI

+3.8%



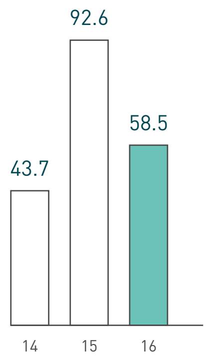
Adjusted EBITDA[2] (52 weeks) (£m) KPI

+12.3%



Free cash flow[3] (£m) KPI

-36.8%



Our financial statements this year are for the 53 weeks ended 31 December 2016. Every six years an additional week is included in our reporting period to ensure that our end-of-year date stays close to the end of December. All revenue and EBITDA KPIs in this Annual Report are for a 52-week period and exclude the 53rd week unless otherwise noted. All balance sheet and cash flow information is reported as at the year end date. The full 53-week results can be found in the Financial Review on page 22.

* Group revenue for the 53 weeks ended 31 December 2016 was £1,764 million, 5.3% up on the prior year.

1, 2 and 3 – see page 21.

United Kingdom

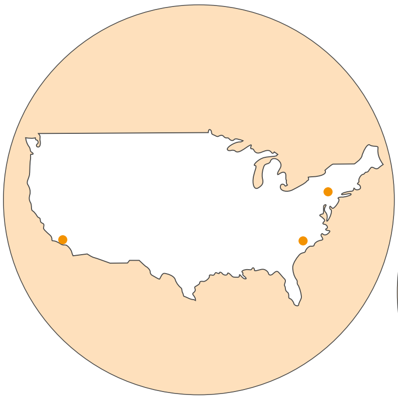
We are the leading provider of fresh prepared food in the UK, the most advanced and innovative fresh prepared food market in the world.

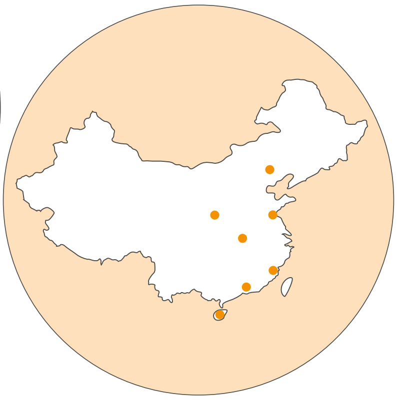
- 30 facilities over 19 sites, with 16,500 employees.
- Number one in 12 out of the 16 categories we supply in the UK.
- Long-standing, strategic relationships with the UK's best known grocery retailers.

page 19 for more details on our performance

● Our UK sites

International





● Our international sites

USA

In one of the largest food markets in the world, we are building partnerships with key retailers, mirroring our successful strategy in the UK.

- 3 manufacturing facilities, with 500 employees.
- Core categories are dips, soups and ready meals.
- Expanding supply of our core categories nationally.

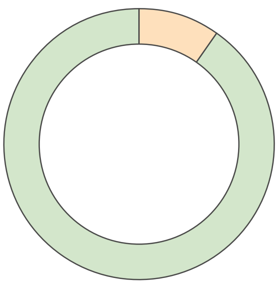
China

In the fastest growing foodservice market in the world, we are a national operator with strategically located facilities close to key cities.

- 9 manufacturing facilities across mainland China and Hong Kong, with 1,500 employees.
- Largest provider of salads, prepared sandwiches and wraps in mainland China.
- Supporting the rapid growth plans of international foodservice customers across the region.

page 20 for more details on our performance

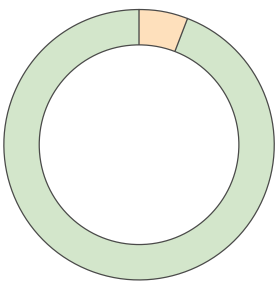
Group revenue by business (52 weeks) (£m)



90%
1,563.7
UK

10%
171.7
International

Adjusted EBITDA[2] by business (52 weeks) (£m)



94%
136.9
UK

6%
8.7
International

2 – see page 21.

QUALITY FOOD

We make and develop own-label prepared food for leading grocery retailers and well-known international foodservice operators. With over 5,000 products in 18 categories, we are a leading international manufacturer in the sector.

>220

new development experts across the Group

With an embedded culture of innovation, our team of experienced chefs and food development experts bring new and exciting fresh prepared food to the market – enabling us to launch hundreds of new products each year.

Bramley apple compote with Greek-style natural yogurt and granola, and a bircher-style muesli with pomegranate seeds, dried cranberries and pistachios

>730

new products launched in the UK alone in 2016

Our track record of success is based upon our ability to quickly create and launch products that meet changing consumer needs. This pace of change in the fresh prepared food market makes it one of the most dynamic food markets in the world.

Meeting the needs of today's consumers across 18 leading categories

- Desserts and pastries
- Dips
- Dressed salads and meal salads
- Dressings
- Fresh cut fruit
- Fresh cut salads
- Fresh cut vegetables
- Fresh produce
- Fruit juices and smoothies
- Modern deli
- Pasta
- Pizza
- Ready meals
- Sandwiches and wraps
- Sauces
- Soups
- Speciality breads and bakery products
- Stir fries

Teriyaki salmon sticky rice salad

No.1

market leader in 12 of our 16 UK categories

We make a broad product offering which gives balance across price range, categories and seasons. Our category leadership is built on strong customer partnerships, having the best market insight, and the standards we have set for safety, quality, innovation and service.

Gluten-free spaghetti carbonara served with seasonal salad leaves

QUALITY PARTNERSHIPS

Our success is driven by strong relationships with leading grocery retailers and foodservice businesses – in the UK, the USA and China.

Our key customers in the UK

We have long-term, strategic relationships with the UK's leading grocery retailers – founded on decades of experience building our customers' own-label brands in the fresh prepared food market.

Our key international customers

In the USA, we have a rapidly growing presence with key retail and foodservice partners.
In China, we supply our products to the fast-growing western foodservice brands.

page 18 for more detail
on our strategic objectives

AN AWARD-WINNING BUSINESS

Delivering quality every time to our customers and consumers is how we judge our success. We are pleased to receive regular awards in recognition of our commitment to innovation and great service. In the past year, we have been recognised with 16 awards.

- 2 Gold Grocer Own-Label Food and Drink Awards
- 5 RoSPA Gold Awards for Occupational Health & Safety
- 1 UK Packaging Award
- 1 Quality Food Award
- 7 Awards from our customers for our service, quality and ethical standards

16 Awards

Butternut squash and sweet potato rősti

QUALITY PEOPLE

We are proud of the people we employ. It is their hard work, commitment and passion in making award-winning and safe food that makes us the industry leader in our sector and ensures our continued success.

Culinary expertise

At Bakkavor, our people are excited by food – and with over 220 development experts we bring that excitement to life in over 5,000 products.

We are leveraging the in-depth knowledge of our people in the UK to build our business in the USA and China, including regular secondments of our colleagues to share their expertise in these two dynamic markets.

A team of experts

Supported by our innovation committee, our teams work hand in hand with our customers to deliver fresh prepared food that both attract and excite consumers, 24 hours a day, seven days a week.

This year in the UK alone we launched over 230 new ready meals, 80 new desserts and 65 new pizzas. Backed by a highly experienced team of technical experts, every product meets the highest standards of quality and food safety.

Speed to market

In just 12 weeks, our team of experts can take a product from customer concept approval through to launch. This speed to market makes fresh prepared food one of the most dynamic markets in the world.

>500

technical experts across the Group

>220

development experts across the Group

As part of our corporate office move to Fitzroy Place in 2016 we installed a state-of-the-art kitchen and tasting area to showcase our culinary and new product development expertise.

QUALITY MARKETS

We operate in some of the largest food markets in the world where, based on our in-depth knowledge of retail, consumer and food trends, we believe fresh prepared food has the most potential for long-term growth.

Delivering market insight

The consumer is at the heart of everything we do and our consistent investment in consumer insight, leading-edge research and management expertise sets us apart from our competition.

Whilst we operate in three very different geographical markets, the overarching trends driving consumer behaviour within these markets are shared. Our ability to translate trends into commercially-successful products is critical to improving our market-leading position and driving future growth in our business.

Convenience

The ever-increasing pace of life means that consumers are changing the way they shop for food, looking for products that meet specific occasions or needs. As a result they expect the flexibility to be able to get what they want when they want. In response, UK retailers are tailoring their own-label fresh prepared food ranges with labels such as 'food to go' or 'dining in' and making the whole shopping experience easier by increasing their convenience store formats, offering more choice online and providing services such as click and collect.

In China, the demand for fresh prepared 'food to go' continues to rise. Whilst the Chinese foodservice market is highly fragmented, western food chains are taking advantage of this trend with aggressive roll-out plans and a consistent, high-quality fresh offering complying with western food safety standards.

Fresh and healthy

Health and wellness remains a key concern for today's consumers. As a result, 'superfoods', 'free from' and 'high protein' lines are becoming more popular and grocery retailers continue to introduce new ranges to cater for this demand.

In the USA, fresh foods are growing in popularity over longer life and frozen alternatives due to the perceived health benefits, with the younger generations in particular having a preference for fresh, convenient meal solutions, free from artificial preservatives. This development, along with growing consumer acceptance of own labels over brands, has resulted in retailers increasing their focus on the development of their own-label fresh prepared ranges.

Authentic tastes

Consumers continue to seek out variety and excitement in their food through high-quality ingredients, new flavour combinations and new recipes. This year has been no exception with unusual-coloured vegetables and ancient grains being particularly popular as well as authentic flavours such as Madagascan vanilla and Mexican chipotle. For those consumers that want to experience these new flavour combinations but don't always have the time to cook, fresh prepared food offers a convenient and healthy alternative option.

Raspberry and rose, Belgian chocolate and malt, Sicilian lemon meringue and Madagascan vanilla eclairs

FOCUSED ON GROWTH MARKETS

The UK is our core fresh prepared market and by leveraging this UK expertise we are exploiting the significant opportunities in the USA and China.

Sales of UK fresh prepared food are increasing by 4% p.a., well ahead of the total food market.[1]

China's foodservice market is projected to grow by c.10% p.a. over the next five years.[2]

USA own-label sales only account for 14% of the total grocery market, and offer significant growth opportunities.[3]

£7.3bn

size of the UK fresh prepared food market[1]

1. Source: Composite of IRI and KantarWorldpanel
2. Source: Interchina Consulting
3. Source: IRI

RESHAPING FOR THE FUTURE

Lydur Gudmundsson
Group Chairman

I am pleased to report that 2016 was another successful year for the Group. We continued to reduce our leverage and in January we welcomed Baupost as new shareholders. We have also strengthened our corporate governance with the appointment of new Board Directors, and have positioned ourselves for further growth in line with our strategic priorities.

THE TRANSFORMATION OF THE GROUP

2016 marked the 30th anniversary of Bakkavor Group and we are proud of how the business has transformed from a small Icelandic fish processing company to a leading international manufacturer of fresh prepared food.

1986-1996

Founded by Agust and Lydur Gudmundsson to manufacture and export fish products.

65
employees (1996)

£4.6m
revenue (1996)

1997-2000

Expansion of Scandinavian operations. Listed on Icelandic Stock Exchange.

2001

Acquired Wine & Dine and Katsouris Fresh Foods in the UK.

Ranked
127th
in Europe's 500 fastest growing companies

2002

2,200
employees

Ranked
2nd
in Europe's 500 fastest growing companies

£134m
revenue

Reshaping our business

In 2012 we made the decision to exit Continental Europe in order to focus our attention on the three key strategic markets of the UK, USA and China which we consider provide the best long-term growth in our sector. In August 2016, we completed this reshaping by selling our operating business in Belgium. Focusing on just three core regions enables us to work closely with a number of strategic partners in our key markets and to take advantage of the significant opportunities these relationships offer.

Financial strength

We ended the year with another set of strong financial results and this has enabled us to refinance our borrowing facilities and reduce our finance costs. In January 2016 we took the decision to redeem £75 million of our Senior Secured Notes 2018 from our cash reserves and towards the end of 2016 we entered into negotiations with lenders to put new facilities in place allowing us to repay all of our existing debt.

These negotiations concluded in March 2017 with a new long-term corporate facility which will result in a significant reduction in our finance costs going forward and we now look forward with the capacity to invest for further organic growth and secure strategic, value-creating opportunities in our key markets.

Governance and leadership

Robust governance is essential to ensuring we operate safely and effectively. At the start of 2016, we appointed Robert Berlin and Todd Krasnow to the Bakkavor Board as non-executive Directors following the investment in Bakkavor by the Baupost Group.

In January 2017 we made two further appointments, welcoming Denis Hennequin and Simon Burke to the Board as non-executive Directors. They bring with them significant strategic and board experience as former CEOs of large corporate businesses within the retail sector, and we look forward to working with them to further develop our governance framework.

In addition Ann Savage, our Group Technical Director, retired from Bakkavor in March 2017, and I would like to thank Ann for the many years of dedicated service she committed to the business. Our new Technical Director is joining the Group in April 2017 and we will continue to lead technical standards in our market.

A positive outlook

Reflecting on 2016, our 30-year anniversary, I am proud of how far we have come. Our continued focus on our strategic priorities and values means that we are entering 2017 in the strongest position we have ever been as a business. Importantly, our lower cost of finance, the investment by the Baupost Group, and significant customer wins are all signs that external stakeholders also recognise the Group's strength. I would like to thank all of our 18,500 employees, who are essential to making the Group the success we are today.

Lydur Gudmundsson
Group Chairman

page 19 for our Operational Review

page 35 for our Governance Report

2003-2004

- Sold seafood operations to focus on fresh prepared foods.
- Established Bakkavor Asia to leverage expertise.

2005

- Acquired Geest Plc, a leading UK producer of fresh prepared foods.

14,000
employees

£722m
revenue

2006-2008

- Acquired a number of businesses in UK, Europe, Asia and USA to support strategic development.

£1.6bn
revenue (2008)

2009

- Delisted from Icelandic Stock Exchange.

2010-2011

- Exited low-margin produce businesses.

2012-2014

- Redomiciled to UK. Sold French, Spanish and Czech businesses.
- Expanded Chinese operation.
- Sold South African business and 40% stake in Italian operation.

2015-2016

- Acquired B.Robert's Foods in NC, USA.
- Sold remaining stake in Italian business and Belgian business.
- Major shareholder changes. Agust and Lydur Gudmundsson and Baupost Group now own Bakkavor, with the Gudmundssons holding the controlling interest.

SET FOR LONG-TERM GROWTH

We develop and make innovative food for our customers, giving choice and quality to consumers, and we use the cash generated to invest for future growth.

WHAT WE DO

We develop and make innovative food for our customers, giving choice and quality to consumers.

- We have a single focus on the complex, fast-moving fresh prepared foods sector
- We have a deep understanding of the market, staying at the forefront of food and consumer trends and building on our market-leading positions
- We have a culture of innovation

>5,000
different products made across the Group in 2016

HOW WE DO IT

We build long-term customer relationships.

- We engage with a number of leading retailers and use our customer insight to ensure we are always offering the right products
- We provide outstanding customer service
- We set the food industry benchmark for safety, quality, innovation and service

7 awards
from our customers and 5 RoSPA awards

We manage our people effectively, focusing on excellent operational delivery.

- We reinvest in continuous improvement throughout the business
- We work to strengthen our core capabilities by developing centres of excellence
- We have a comprehensive people strategy in place to drive development and reward

4 awards
for product innovation and quality in our industry

OUR VALUES

Our success is rooted in our values. We have five core values that describe how we work together and the behaviour we expect from everyone who works at Bakkavor.

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.

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.

We generate strong cash flows and invest appropriately.

- We maintain strict cost controls, using our global buying platforms to source quality ingredients at the best price
- We manage our working capital effectively
- We make compelling investments at the right time to build for future growth
- We ensure that we maintain adequate liquidity and an effective capital structure

£58.5m

of free cash[3] generated in 2016

CREATING VALUE FOR OUR STAKEHOLDERS

We engage with our stakeholders to create shared value by...

- Partnering with our **customers** to develop a diverse, innovative and on-trend product range to drive consumer demand
- Offering open and unbiased communication with our **investors**, explaining our strategy and performance at regular intervals
- Providing an engaging learning environment and rewards to attract and retain **colleagues**
- Collaborating with our **suppliers** to promote customer service and food safety excellence so that we all benefit from growth and innovation
- Investing in our **communities**, working collaboratively to promote the sustainable growth of the food industry

For more information on our stakeholders, see Responsibilities on page 28

2.6 times

leverage at the end of 2016

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.

Innovation

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

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.

3 – see page 21.

DELIVERING QUALITY, GROWING VALUE

Through 2016 we have seen further progress on our revenue and profit KPIs, confirmation that our strategy is delivering value. It was also pleasing to see that despite significant capital spend this year we also maintained good cash generation and we were able once again to reduce both debt and leverage.

pages 33-34 for more detail on our Group and Management Boards

Success in a challenging market

In the UK, the overall grocery market remained challenging with limited growth. However, once again, the fresh prepared food sector grew ahead of the wider market as retailers continued to drive innovation through the category and volume growth with consumers.

Uncertainty about the strength of the UK economy rose during the second half of 2016, although consumer spend remained resilient. We saw rising input costs, both from raw materials but also from labour costs, which have been impacted by the National Living Wage and high employment levels. These factors have had a significant impact on our cost base and we expect further pressure into 2017 in these areas. We are actively engaged with our customers on this and we are confident that the Group's robust financial position and our strong customer partnerships built on trust and transparency mean that we are in an excellent position to manage the challenges that lie ahead.

Market-leading in the UK

The UK remains the cornerstone of the Group as we lead in 12 of the 16 categories in which we operate. I was pleased to see volume growth across our core categories following significant capital investment over the past year. This success is a reflection of our 16,500-strong workforce and the innovation that lies at the heart of all that we do. Together with our customers, we launched over 730 new products in the UK alone during 2016, to meet the changing demands of today's consumers and drive further growth in the sector.

The international opportunity

We saw a marked improvement in profit in our international operations through 2016 as we extended our product offering in these key markets, leveraging our UK expertise to share knowledge and skills across the Group. I am encouraged by this progress and the infrastructure we are putting in place to deliver further sales in these two exciting and fast-growing markets.

Strategic investment

We continued with a focused strategic capital investment programme across each of our geographic regions, and increased spend in comparison to 2015. Our focus is to build capacity and improve production efficiency, operational safety and environmental sustainability to deliver future growth.

THE BAKKAVOR DIFFERENCE

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

- Partnerships with leading retailers
- Breadth of product portfolio
- Committed and engaged employees
- Experienced Management Board
- World-class operating facilities
- Leadership in food safety and integrity
- Proven financial discipline

Outlook

Our focused, strategically-aligned business means that we can look ahead with confidence. We understand challenges will inevitably lie ahead but I believe that the Group has never been in a better or stronger position. We now have an operating model that is aligned to customers and categories; the know-how to deliver products that our customers value; leadership in a growing market; and the financial robustness to capitalise on new, value-accretive opportunities. Together, I am confident these strengths will enable us to realise our vision of being recognised and respected as the world's leading fresh prepared food provider.

Agust Gudmundsson
Chief Executive Officer

STRATEGIC OBJECTIVES

TARGETING GROWTH OPPORTUNITIES

Building on our leading position in high-potential, fast-growing fresh prepared food markets.

Growing our presence in the USA and China with key retail and foodservice partners

The USA and China are two of the most exciting food markets in the world with significant growth opportunities. Leveraging our wide experience in the UK fresh prepared food market, we are continuing to expand our operations in both the USA and China to support the aggressive growth plans of our customers.

In the USA, we have expanded our supply into key retailers over the past year as the appetite for healthy, fresh food continues to grow. In China, as the foodservice market continues to grow 3-5% ahead of GDP, we have continued to grow with international providers, capitalising on our industry-leading expertise and technical standards.

STRENGTHENING OUR CUSTOMER RELATIONSHIPS

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

Significant wins in core categories

We work in partnership with all of our strategic customers to drive innovation and sales through our categories. In 2016, this dedication to excellence and award-winning quality resulted in significant wins in both our pizza and ready meals categories for two of our largest customers. These new ranges are proving popular with consumers and we look forward to expanding these lines further over the coming months.

Awards for innovation, service and responsibility

We are proud to have received seven awards from customers in 2016. These recognised our innovative culture, working collaboratively, running our business in a responsible manner and applying best practice processes.

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.

Bespoke training programmes

We believe in investing in our people in order to drive innovation and quality through the Group. In 2016 we continued the roll-out of our 'Recipes for Success' programme, a custom-designed course for new managers, and we are launching a tailor-made course for senior management in 2017.

Sharing learnings around the Group

To support our rapid growth internationally, it is vital that the people we employ overseas have the skills and expertise needed to drive this growth to the same industry-leading standards as we have in the UK.

Over the past two years we have run a graduate programme for our Chinese nationals in the UK in key areas such as innovation, technical standards and consumer insight. This programme has proved highly successful and we are looking to roll it out to our USA business.

INVESTING AND WORKING EFFICIENTLY

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

Investing behind our customers

As an industry leader, we understand that it is vital to invest behind our customers to continue to drive quality and innovation and enable further growth.

Over 2016 we increased our capital expenditure significantly across the Group as we invested in capacity and efficiencies following significant business wins in our ready meals, pizza and salads categories.

China sourcing platform

As a global business, we are able to leverage our presence from around the Group to deliver value. Our China sourcing platform allows us to make significant savings, not only in our local business, but also by supplying high-quality raw materials at attractive prices direct to our operations in the UK and USA.

UK OPERATIONAL REVIEW

We are number one in 12 of our 16 product categories.

Growth market

The fresh prepared food market continues to grow ahead of the UK grocery market, driven by consumer demand for convenient high-quality fresh food to suit busy lifestyles.

Our biggest customers lead in this market, putting us in a unique position to work in partnership with them to maximise growth together. By working in close collaboration with each of our key customers our dedicated customer teams ensure the products we develop meet the specific needs of their consumers and differentiate their proposition.

Innovation driving growth

Innovation is the lifeblood of our business. We have more than 220 development experts who work to translate the latest global food trends into award-winning products for our customers and ensure we continuously update and revise recipes to drive consumer demand. This approach has enabled us to gain significant new business in the core categories of ready meals, pizza and salads in 2016 and our active pipelines with each of our customers ensures that we maximise growth.

Focused investment

To support the delivery of innovation and growth we continually invest in our operations across the UK. Our investment spend increased significantly in 2016 as we saw growth returning following a period of consolidation where we reshaped our operations, exiting unsustainable business and driving margin through cost efficiencies.

We focus on three core areas of investment: quality, capability and capacity and in 2016 this was reflected in improved leaf washing and drying systems, the launch of gluten-free meals and the installation of our third wood-fired pizza oven.

Maximising efficiencies

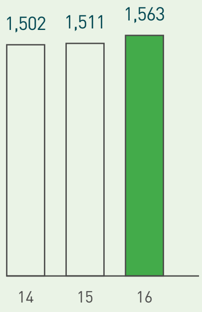
Our investment projects are also designed to drive efficiencies across our sites, and this is supported by our operational finance team, created by bringing some of our best manufacturing and finance leaders together to work across the UK business as a whole. The emphasis is on leveraging synergy for value through benchmarking, cross-business activity and sharing improvement projects.

This team is also instrumental in evaluating and prioritising our productivity improvement plans.

With this operational structure in place and a strong pipeline of capital projects, we are committed to investing behind our customers to deliver future growth.

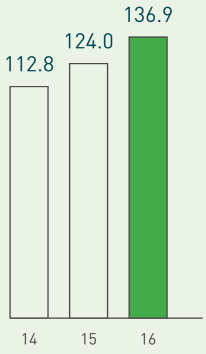
UK Like-for-like revenue[1] (£m) KPI

+3.5%



UK Adjusted EBITDA[2] (52 weeks) (£m) KPI

+10.4%



1 and 2 – see page 21.

INTERNATIONAL OPERATIONAL REVIEW

We continue to develop our presence in our strategic international markets.

Growing market in the USA

We have made further progress this year as we embedded a number of important partnerships with key retailers. As these customers grow their business, we can in turn expand our relationship, leveraging their success.

In 2016, we also increased the focus on our 'super categories' such as dips, soups and chilled meals. These markets all show strong demand and excellent growth potential, together with a longer shelf-life to support national distribution.

During the year we completed the expansion of our third facility, located in Pennsylvania, investing in both capacity and capability to service the important East Coast market. We have now also approved the development of a fourth facility to support an existing customer as they make a significant investment in fresh prepared food. To support the growth of our business, we continue to invest in both customer-facing functions and facilities, as we grow our customer base and expand our product offering in this key market.

Strong progress in China

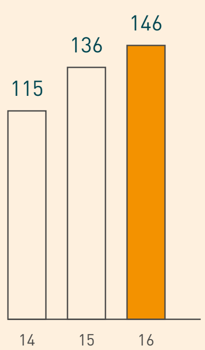
2016 was another good year for our operations in China, with growing sales and profitability along with continued improvements in our technical standards and infrastructure. As in the UK, our model in China is to develop long-term strategic relationships with our key customers. This year, we continued to highlight our technical expertise and high-quality food standards to our customers to differentiate ourselves from the local market. Further investment in product development using our in-depth market knowledge and insight has provided a further differentiator and improved our ability to bring the right products to market quickly.

Late in 2016, we signed off our largest single investment since entering the China market, to expand our Haimen facility: our biggest site, which services the East China region, including Shanghai. This investment will create a facility with substantially increased capacity, setting us apart from our local competitors, and will support our drive to grow our business with national supply customers in the 'food to go' market.

In addition to developing our facilities, we also have a long-term commitment to our own personnel, and support our China business with an ongoing graduate programme for Chinese nationals in the UK. This allows our best practices to be ingrained into our China operations to create a business that will continue to lead the growing fresh prepared food market in future years.

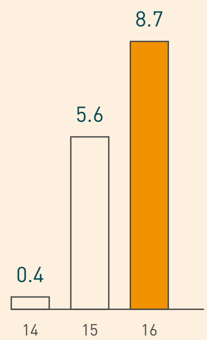
International Like-for-like revenue[1] (£m) KPI

+7.9%



International Adjusted EBITDA[2] (52 weeks) (£m) KPI

+55.4%



1 and 2 – see page 21.

FINANCIAL REVIEW

Revenues of £1,735 million for the 52 weeks ended 24 December 2016, an increase of 3.6% on the prior year.

Peter Gates
Chief Financial Officer

Overview

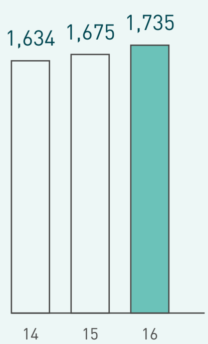
Our financial statements this year are for the 53 weeks ended 31 December 2016. Every six years an additional week is included in our reporting period to ensure that our end-of-year date stays close to the end of December. In the Financial Review all figures relating to the income statement, unless otherwise stated, exclude the 53rd week so that they are comparable to the previous year. All balance sheet and cash flow information is at 31 December 2016 or for the 53 weeks ended 31 December 2016 respectively.

As previously reported the Group completed the sale of its remaining 60% interest in Italpizza S.r.l, our Italian pizza operation, in July 2015. This business generated a profit after tax to the Group in 2015 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 accordance with IFRS this business has been classed as a discontinued operation and its results are excluded from the Financial Review; consequently all references below refer only to continuing operations.

1. Like-for-like revenues are for a 52-week period and exclude the impact of acquisitions, disposals, closures and foreign exchange translation, but include the Group's share of revenue generated by associates.
2. Adjusted EBITDA excludes restructuring costs, asset impairments and those additional charges or credits that are one-off in nature and significance.
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 fixed assets, but before payments relating to historic UK tax liabilities.

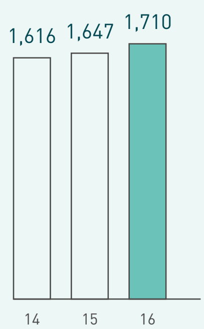
Group revenue (52 weeks)* (£m)

+3.6%



Like-for-like revenue[1] (£m)

+3.8%



* Group revenue for the 53 weeks ended 31 December 2016 was £1,764 million, 5.3% up on the prior year.

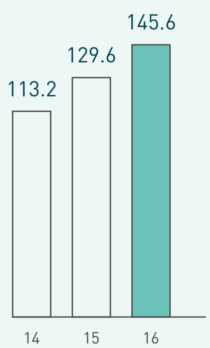
Strategic report

Results of operations

£ million	**Statutory FY 2016 (53 weeks)**	% change	**FY 2016 (52 weeks)**	Statutory FY 2015 (52 weeks)	% change
Revenue	**1,763.6**	5.3%	1,735.4	1,674.5	3.6%
Cost of sales	**(1,275.9)**	(5.1%)	(1,253.3)	(1,214.5)	(3.2%)
Gross profit	**487.7**		482.1	460.0	
Administrative and distribution costs	**(380.8)**	(2.4%)	(375.7)	(371.8)	(1.0%)
Exceptional items	**(8.0)**		(8.0)	(3.5)	
Impairment of assets	**(8.2)**		(8.2)	–	
Profit on disposal of subsidiaries and associates	**0.1**		0.1	5.2	
Share of results of associates	**0.7**		0.7	0.8	
Operating profit	**91.5**	0.9%	91.0	90.7	0.3%
Net finance costs	**(38.7)**	29.9%	(38.7)	(55.2)	29.9%
Other gains and (losses)	**10.3**		10.3	11.7	
Profit before tax	**63.1**	33.7%	62.6	47.2	32.6%
Tax	**(12.3)**		(12.3)	(8.8)	
Profit for the period from continuing operations	**50.8**	32.3%	50.3	38.4	31.0%
Discontinued operations					
Profit for the period from discontinued operations	**0.5**		0.5	13.5	
Profit for the period	**51.3**	(1.2%)	50.8	51.9	(2.1%)

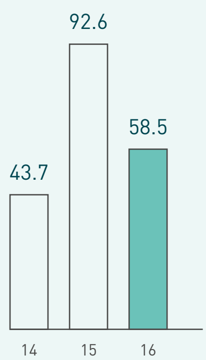
Adjusted EBITDA[2] (£m)

+12.3%



Free cash flow[3] (£m)

-36.8%



2 and 3 – see page 21.

Group revenues

On a like-for-like basis, excluding acquisitions, sold and closed businesses and at constant currency, revenues grew by 3.8%, with strong growth in all our operating segments.

Group revenues for 52 weeks in the UK increased by 2.9% to £1,563.7 million. The growth was driven by good volumes following a number of business wins across our core categories, in part supported by our increased capital investment in recent years. We have also seen strong underlying growth across all our key customers.

Group revenues for 52 weeks in our International operations increased by £16.2 million to £171.7 million with strong growth in both our USA and China businesses. The revenues for 2016 were impacted by the sale of our Belgian business, NV Vaco BV, on 1 August 2016 but this was offset by currency gains following the recent weakness in Sterling. On a like-for-like basis growth was 7.9%, with increased volumes in both the USA and China as we continue to broaden our product offering in these markets.

Reconciliation to like-for-like revenue[1]

£ million	**FY 2016**	FY 2015	% change
Statutory revenue	**1,763.6**	1,674.5	5.3%
Week 53 revenue	**(28.2)**	–	
Group revenue for 52 weeks	**1,735.4**	1,674.5	3.6%
Group share of revenue from associates	**8.0**	19.9	
Revenue from acquisitions, closed and sold businesses	**(17.0)**	(47.8)	
Effect of currency movements	**(16.7)**	–	
Like-for-like revenue[1]	**1,709.7**	1,646.6	3.8%

Gross profit

The gross profit margin for 2016 was 27.8% compared to 27.5% in the prior year. This margin improvement reflects efficiency benefits from stronger volumes and the recent capital investments across the Group. However this margin improvement has been partly offset by higher labour costs in the UK following the introduction of the National Living Wage in April 2016 and we expect to see further pressure from this and other employment-related regulations in 2017.

Distribution and other administrative costs

Despite a year of good underlying growth, these costs have increased by only 1% in the year to £375.7 million as a result of strict control of overheads. The year-on-year increase has also been impacted by the sale of NV Vaco BV in August 2016.

Adjusted EBITDA[2]

Adjusted EBITDA for 52 weeks for the Group was £145.6 million, compared with £129.6 million in 2015, an increase of £16.0 million. As a result, our Adjusted EBITDA margin increased by 70 basis points to 8.4%. The margin improvement has been driven by significant increases in volumes and the benefits arising from our productivity investments in recent years.

1 and 2 – see page 21.

Reconciliation to Adjusted EBITDA[2]

£ million	**FY 2016 (53 weeks)**	**FY 2016 (52 weeks)**	FY 2015 (52 weeks)
Operating profit	**91.5**	91.0	90.7
Depreciation	**37.2**	36.9	35.3
Amortisation	**2.2**	2.2	5.9
Impairment of assets	**8.2**	8.2	–
EBITDA	**139.1**	138.3	131.9
Exceptional items (net)	**8.0**	8.0	3.5
Loss on disposal of property, plant and equipment	**0.1**	0.1	0.2
Profit on disposal of subsidiary and associates	**(0.1)**	(0.1)	(5.2)
Share of results of associates after tax	**(0.7)**	(0.7)	(0.8)
Adjusted EBITDA[2]	**146.4**	145.6	129.6

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	**Statutory FY 2016 (53 weeks)**	Statutory FY 2015 (52 weeks)
Transaction costs	**(5.2)**	–
Restructuring costs	**(1.3)**	(3.5)
Legal case	**(1.5)**	–
Total	**(8.0)**	(3.5)

Transaction costs of £5.2 million relate to the fees incurred in connection with the transactions that resulted in Bakk AL Holdings Limited owning 100% of the Company and becoming the parent company of the Group.

Restructuring costs in the year of £1.3 million relate mainly to redundancy payments following the loss of some business in one of the Group's UK operations. The Group also incurred £1.5 million of legal and other costs in respect of an intellectual property dispute that has now been settled.

The costs in the prior year 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 USA to cease trading.

Impairment

The Group is required to assess the appropriateness of its goodwill, intangible and tangible 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 an impairment charge of £8.2 million in 2016 for UK property, plant and equipment. There were no impairment charges in the prior year.

Operating profit

Operating profit increased by £0.3 million to £91.0 million, representing an operating margin of 5.2%, a 20 basis-point decline on the prior year. Excluding impairment charges the operating margin for 2016 of 5.7% is 30 basis points ahead of the prior year. The majority of this improvement was due to efficiency benefits from the increase in volumes and productivity investments.

Finance costs

Net finance costs of £38.7 million for 2016 are £16.5 million lower than the £55.2 million incurred in 2015. The 2016 costs include £2.2 million (£1.5 million call premium and £0.7 million accelerated amortisation of previous financing fees) in respect of the redemption of £75 million of Senior Secured Notes 2018 in February 2016. The prior year included £9.3 million of one-off costs as a result of the refinancing completed in April 2015. As a result of lower debt levels the borrowing costs are £8.5 million lower this year at £34.0 million.

Other gains and losses represent mark-to-market movements on a fixed rate interest swap and cap, foreign exchange forward contracts and options, other payables and an embedded derivative for the Senior Secured Notes 2020.

Tax

The Group tax charge was £12.3 million for 2016 (2015: £8.8 million). The higher tax charge is due to the increase in profit before tax to £63.1 million for the 53 weeks ended 31 December 2016 (2015: £47.2 million) and the fact that all historical UK tax losses have now been utilised.

CASH FLOW

£ million	**FY 2016 (53 weeks)**	FY 2015 (52 weeks)
Adjusted EBITDA[2]	**145.6**	129.6
Adjusted EBITDA[2] from discontinued operations	**–**	5.7
Adjusted EBITDA[2] for week 53	**0.8**	–
Working capital	**27.3**	50.2
Pensions (cash and non-cash)	**(1.5)**	(3.8)
Interest paid	**(37.3)**	(45.4)
Tax paid	**(9.2)**	(5.7)
Capital expenditure (net)	**(67.2)**	(38.0)
Free cash from operating activities ('Free Cash Flow')[3]	**58.5**	92.6
Cash impact of exceptional items	**(7.6)**	(5.2)
Acquisition of business	**–**	(19.6)
Disposal of subsidiary and associate net of cash disposed of	**2.4**	26.5
Refinancing costs	**(1.5)**	(7.2)
One-off tax payment	**(4.1)**	(12.5)
Cash before financing activities	**47.7**	74.6

2 and 3 – see page 21.

Cash flow, net debt and leverage

Free cash generation for the year of £58.5 million was £34.1 million lower than the previous year. This was largely due to a significant increase in capital expenditure as we invested to support the volume growth across the Group. Our effective working capital management delivered a further benefit of £27.3 million for the year and interest payments were £8.1 million lower this year following further debt repayments. The free cash generated was partly offset by a payment of £33.8 million to fund the purchase of the outstanding shares in Bakkavor Group Limited not already acquired by Bakk AL Holdings Limited in January 2016. In addition, payments have been made of £4.1 million to settle historic UK tax liabilities and a £1.5 million call premium for the early redemption of £75 million of Senior Secured Notes 2018. Partly offsetting this is a £1.9 million benefit from the cash proceeds on the sale of our Belgian business, NV Vaco BV.

Overall operational net debt (excluding accrued interest, unamortised fees and the fair value of call options) has reduced by £15.5 million to £383.1 million. Leverage (the ratio of net debt to Adjusted EBITDA for 53 weeks) was 2.6 times at the year end, down from 3.0 times last year. The Group continues to operate with good headroom against all financial covenants and remains focused on achieving its medium-term leverage target of 2.0 to 2.5 times.

Our liquidity position remains strong and our revolving credit and receivables financing facilities were both undrawn at the year end.

Pensions

Under the IAS 19 valuation principles that are required to be used for accounting purposes, the Group recognised a deficit of £10.0 million for the UK defined benefit pension scheme as at 31 December 2016 (2015: deficit of £3.9 million).The increase in the deficit is largely due to a reduction in the discount rate used in the valuation of the scheme 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 £2.6 million for the year. The triennial valuation as at 31 March 2016 is currently in progress.

Peter Gates
Chief Financial Officer

£91.0m
operating profit (52 weeks)

5.2%
operating margin (52 weeks)

£383.1m
net debt

£67.2m
capital expenditure (53 weeks)

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.

The risk environment around our businesses is under constant review, particularly in response to external factors. In the UK, for example, the decision to leave the European Union could have impacts in a number of areas, including input pricing, labour costs and sourcing, economic activity and consumer confidence.

We will look to mitigate possible future impacts by: developing initiatives to reassure and inform our workforce; investing to enhance capacity and automation; working transparently with our strategic customers; and introducing new recruitment models.

In addition an important mitigating strategy is to continue to run our operations in accordance with our values, which are the foundation upon which our business is built. We ensure we do so with a robust governance framework, clear accountabilities, and rigorous audit processes.

RISK DESCRIPTION AND IMPACT	HOW WE MITIGATE OUR RISKS	DEVELOPMENTS DURING 2016
higher / level / lower — **Change in risk level over past 12 months**		
	OPERATIONAL RISK	
Food safety and integrity (level) 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.	• 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.	• Continued to ensure we meet all legal and customer standards and are HACCP-compliant. • Retirement of Technical Director, with new Technical Director in place in early 2017. • Closer relationships with important Chinese customers.
Health & Safety (H&S) and environment (level) We understand our duty of care to secure and protect the Health & Safety of our employees and to reduce the environmental impact of our operations. The safety of our employees is paramount to our continued success and failing to keep them safe could carry significant reputational and legal risks.	• 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.	• In 2016, we outperformed the industry average respectively in both lost time accidents and major accidents by 52% and 78%. • Enhanced and strengthened our workforce training with our leading-edge digital HR suite. • Continued reinforcement of a culture of safety with appropriate induction and regular training.
Loss of key employees (higher) 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.	• Company values used to recruit, appraise, reward and develop employees. • Succession planning, long-term management incentives, retention initiatives and a commitment to training.	• Rolled out our tailored leadership development programme, 'Leading for Success', using our bespoke Leadership Framework. • Continuation of our 'Recipes for Success' programme for middle management. • Rolled out a new recruitment model at five sites, with plans to expand it further.

RISK DESCRIPTION AND IMPACT	HOW WE MITIGATE OUR RISKS	DEVELOPMENTS DURING 2016
MARKET RISK		
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.	• 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.	• 2 Waitrose Supplier Awards for: 'Treating People Fairly' and 'Collaborative Working'. • 3 Gold M&S Integrity Awards. • 1 Gold Standard Tesco Nurture Audit. • 1 Co-op Development of the Year.
Consumer understanding Our in-depth understanding of our consumers 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.	• 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.	• Continuous analysis of consumers, including working with food industry consumer research experts. • Ongoing, close collaboration with our strategic partners. • In the USA, streamlined our offering to focus on 'super categories'. • In China, improved our consumer insight function.
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.	• 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.	• Introduced more transparent pricing with our strategic customers. • Finalised our exit from lower-margin businesses. • Ongoing investment in automation and plant equipment to enhance efficiency. • Introduction of National Living Wage in UK puts additional pressure on labour costs.
FINANCIAL RISK		
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.	• Financial results, projections and covenant performance reviewed regularly. • Open and regular dialogue with our lenders and an active investor engagement programme.	• A new £485 million corporate loan facility, resulting in a significant reduction in interest costs whilst extending the maturity of the funding commitments, was put in place in March 2017. • Leverage ratio (ratio of net debt to Adjusted EBITDA) of 2.6 times at year end, down from 3.0 times in December 2015.
Liquidity and financial exposure 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.	• Treasury function operates within framework of strict Board-approved policies and procedures (see note 30 to the consolidated financial statements). • Active foreign exchange hedging programme maintained. • Majority of borrowings are at fixed interest rates.	• Operational net debt down to £383.1 million at year end. • Revolving credit and receivables financing facilities remain undrawn at year end.

RESPONSIBILITIES

We believe strongly in having a sustainable business and we have put values and systems in place to ensure we remain focused on the needs of our stakeholders and the environments in which we live and work.

Approach

Our success is rooted in our values. We have five core values that describe how we work together and the behaviours we expect from everyone who works at Bakkavor. To ensure we live what we say, we have rigorous systems in place that are driven from the Board, supported by our leadership team.

With these five focus areas, we maintain the trust of our key stakeholders – and their desire to work with us now and into the future. These focus areas also guide us to manage our resources efficiently and cost-effectively.

FOCUS AREAS

FOOD SAFETY AND INTEGRITY

- Delivering food products with the highest standards of safety and integrity to our customers

HEALTH & SAFETY

- Protecting our workforce from harm

OUR PEOPLE

- Ensuring that our people are motivated, treated with respect and rewarded fairly

ENVIRONMENT

- Minimising our environmental footprint

COMMUNITIES

- Making a positive impact in our communities

PRINCIPAL STAKEHOLDERS

CUSTOMERS

Building relationships through strong customer engagement across the business.

EMPLOYEES

Engaging through a range of communication channels, including daily briefings, newsletters, formal appraisals, and site and Group-wide forums.

INVESTORS AND LENDERS

Communicating in an open, timely and unbiased manner which respects commercial sensitivities.

SUPPLIERS

Collaborating to promote customer service, food safety excellence and continuous improvement.

COMMUNITY

Working with local communities to understand any issues and develop community relationships.

FOOD SAFETY AND INTEGRITY

The foundation of our business success is ensuring that all of our products are safe.

Making sure every product that leaves our manufacturing plants is both safe and meets our customers' expectations is driven by a team of over 500 people who design, implement and monitor compliance with our food standards – meeting all legal and customer standards and ensuring each product is HACCP-compliant.

We ensure our own systems are robust and industry-leading with rigorous auditing and testing. This includes laboratory testing, announced and unannounced internal and external audits, and regular management reviews.

Supply chain integrity

We source over 6,000 ingredients – from small farmers to multi-national operators. Underpinning the safety of our products is the work we are doing to ensure the integrity of this supply chain, all the way from an initial risk assessment through to supply chain mapping.

Responsible sourcing also drives ongoing improvements in our supply chain through enhanced knowledge, thereby mitigating risks and ensuring ongoing access to key ingredients.

PRIORITIES FOR 2017

SUPPLY CHAIN INTEGRITY

TECHNICAL EXPERTISE

FOOD SAFETY BEST PRACTICE

>500

technical experts who design, implement and monitor compliance with our food standards

>6,000

number of ingredients we source – from individual farms to multi-national operators

>1,000

samples tested by our microbiology laboratory every day

HEALTH & SAFETY

Our priority is to protect every person who works with us.

Our safety culture is based on strong governance processes, driven from the Board. Our UK business supports our USA and China operations by reviewing safety performance, sharing and interpreting our risk management system to deliver compliance, and sharing good practice and learnings.

We recognise excellence in safe ways of working and behaviours with Company-wide awards and recognition programmes. We also host site employee forums and Group employee forums to further embed our safety messages and share best practice initiatives.

We bring safe ways of working to life, in meaningful ways. This starts with employee induction and is supported by regular training and practical workshops. In 2016, these included: Machinery Safety, Contractor Control, Licence to Work and Accident Investigations.

Together, our Board and leadership team seek to prevent life-changing incidents or fatalities through a dedicated focus on avoiding major accidents. During 2016 we continued to be well below the industry average in both lost time accidents and major accidents, with outperformance of the industry average by 52% and 78% respectively.

5

RoSPA Gold Awards for Occupational Health & Safety in 2016

78%

we are proud that we outperform the industry average for major accidents by 78%

PRIORITIES FOR 2017

MACHINERY SAFETY

ELECTRICAL SAFETY

WORKPLACE TRANSPORT

OUR PEOPLE

We build our business around attracting, retaining, supporting and rewarding our people.

Our success as a Group is driven by the people we employ and their dedication to ensuring our business delivers outstanding quality, value and service to our customers. As a major employer, we appreciate the skills and qualities that our people can bring to our business, whatever their background or nationality. Therefore, as we go forward, ensuring we continue to have the same level of abilities available to us is going to be a key component of our HR strategy. We actively encourage a culture of personal initiative, teamwork and innovation – with employees equipped with the right tools and training, and rewarded fairly for their efforts. In 2016, we developed a bespoke online assessment app for use in our factories; this is a significant innovation for our sector and will be rolled out in 2017.

Developing our leadership team

Over the past 18 months, we increased opportunities within our senior teams and rotated approximately 80% of the senior management team into new roles and responsibilities. To support these moves and enhance skill sets, we rolled out a tailored leadership development programme, 'Leading for Success', over 2016.

In addition to 'Leading for Success', we also continued to run our 'Recipes for Success' programme for middle managers. Both courses have been very well received and we will be introducing further training initiatives through 2017.

Recruitment and retention

We have a large recruitment team focused on attracting appropriate applicants to the business. In 2016, we rolled out a new regional recruitment model at five of our sites. This has proved highly successful and we aim to expand this model across other sites over the course of 2017.

In 2016, we also continued to focus on offering skills opportunities to young people close to our sites. We ran a programme for young people at risk of exclusion and we continued to support 'Feeding Britain's Future', an industry-wide programme to provide young unemployed people and school children with insight into food and grocery careers.

At the trainee level, we work closely with the National Skills Academy for Food & Drink and the Skills Funding Agency to offer opportunities for young people under the new Apprenticeship Levy. In total, we hired 29 apprentices and recruited 29 graduates onto our Accelerated Management Scheme in 2016.

29

new entrants onto our Graduate scheme in 2016

29

apprentices hired in 2016

PRIORITIES FOR 2017

SUCCESSION PLANNING

RECRUITMENT AND RETENTION

FUNCTIONAL-SKILLS-BASED TRAINING

ENVIRONMENT

As a responsible business, we recognise that our operations have both direct and indirect impacts on the environment.

We improve the Group's environmental performance through a number of sustainability programmes that are cost-effective and reliable. We concentrate on the four main areas of environmental impact over which we have immediate operational control – resource efficiency, water, waste and packaging – and we have set ourselves a target of a 30% reduction in usage of utilities across the business over the medium term. We are also engaged in industry-wide collaboration on water stewardship, and we continue to invest in water efficiency processes across the Group.

Over the past four years we have sent less than 1% of our waste to landfill. In addition, we seek to divert unused products and supplies to our workforce canteens and food charities. This year we supplied the equivalent of over 100,000 meals to FareShare, a leading UK charity.

In collaboration with our packaging suppliers and customers we are reducing packaging weight and increasing the percentage of recycled and recyclable materials used.

30%

reduction target in usage of utilities across the business

<1%

of waste to landfill in the past four years

PRIORITIES FOR 2017

RESOURCE EFFICIENCY

SURPLUS FOOD MANAGEMENT

0% WASTE TO LANDFILL

OUR COMMUNITIES

As a large employer, it is important to understand and support the needs and concerns of our local communities.

To help us do this we have established site employee forums (SEFs) which are attended by elected employee representatives and management. Each SEF is responsible for driving engagement within our businesses to lead and support local initiatives, charities, groups and schools.

As a responsible food manufacturer we also believe it is important that we play a role in educating our local communities on nutrition and health. We hold regular workshops in schools close to our sites to raise awareness of healthy eating and the importance of maintaining a balanced diet.

In addition to local causes, we are also keen to be involved with national schemes which reflect our business approach to the sustainability efforts of our customers. As such we are an active sponsor of The Prince's Trust and The Prince's Countryside Fund.

PRIORITIES FOR 2017

PARTNERSHIP WITH THE PRINCE'S TRUST

PARTNERSHIP WITH THE PRINCE'S COUNTRYSIDE FUND

COMMITMENT TO EMPLOYEE EVENTS AND LOCAL CAUSES

>£250,000

in charity donations

>5,000

attended our Family Fun weekend for employees

OUR BOARD OF DIRECTORS

Lydur Gudmundsson
Group Chairman

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

Agust Gudmundsson
Chief Executive Officer

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

Robert Q. Berlin
Non-executive Director

KEY EXPERIENCE
- Senior investment professional with wide-ranging experience, including foodservice and consumer companies
- Has held a number of strategic roles within the tech and financial sectors
- Currently Managing Director, The Baupost Group

Todd Krasnow
Non-executive Director

KEY EXPERIENCE
- Senior executive at a number of multi-national companies
- Extensive experience in retail and consumer services sectors
- Serves on the boards of Carbonite, Tileshop, Kids II and C&S Wholesale Grocers

Denis Hennequin
Non-executive Director

KEY EXPERIENCE
- Extensive leadship experience within retail sector
- Former CEO of McDonalds Europe and Chairman and CEO of Accor
- Serves on the boards of Eurostar International Limited, John Lewis Partnership plc, Celio France and SSP Group plc

Simon Burke
Non-executive Director

KEY EXPERIENCE
- Over 30 years' experience within retail and food sectors
- Former CEO of Virgin Retail UK and Virgin Entertainment Group and Chairman and CEO of Hamleys plc
- Serves on the boards of The Co-operative Group Limited and the British Broadcasting Corporation. Chairman of The Light Cinemas (Holdings) Limited and Blue Diamond Limited

OUR MANAGEMENT BOARD

Agust Gudmundsson
Chief Executive Officer

SEE BOARD OF DIRECTORS PROFILE

Peter Gates
Chief Financial Officer

KEY EXPERIENCE

- International financial roles, including Saatchi & Saatchi and Avis Europe
- Over 30 years of corporate finance experience
- Chartered Accountant and Member of the Association of Corporate Treasurers
- Six years of service with Bakkavor

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
- 15 years of service with Bakkavor

Ivan Clingan
President & CEO of Bakkavor USA

KEY EXPERIENCE

- Extensive knowledge of fresh prepared foods
- A number of senior operational and functional roles across Bakkavor
- Qualified as a Management Accountant with Nestlé
- 26 years of service with Bakkavor

Einar Gustafsson
Managing Director, Bakkavor China

KEY EXPERIENCE

- Turnaround specialist for two US seafood companies
- Management consultancy background with Deloitte
- 11 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
- Three years of service with Bakkavor

Ann Savage
Group Technical Director

During the year under review, Ann Savage stepped down from the Management Board. Ann retired fully from Bakkavor in March 2017 and we would like to thank Ann for her great contribution to the Group over the past 17 years.

STRENGTHENING OUR GOVERNANCE

At Bakkavor, we believe that effective governance is achieved 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. These values are fundamental to our ability to carry out our day-to-day business with integrity.

Details of the Group Board who served during the reporting period can be found on page 33. Management Board profiles can be found on page 34.

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 essential 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 2016. 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 26-27. An overview of which Management Board member is responsible for managing which key risk is provided in the graphic on page 36.

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

Our Audit Committee, which comprises key management across the business, regularly monitors internal controls. The Audit Committee meets to discuss and approve the nature and scope of the audit programme for the year. The 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, RSM, 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 the internal audit team before being reported to the Audit Committee. During the coming year the Board intends to review the current role and structure of the Audit Committee having in mind the broader requirements of the Combined Code.

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 2016 and the associated fees has been provided in note 6 to the consolidated 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 2016 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.

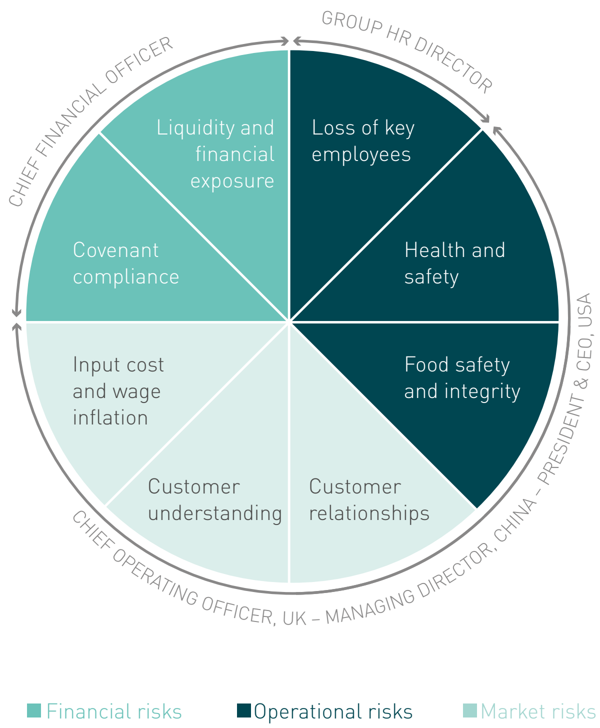
RESPONSIBILITY FOR RISK MANAGEMENT

GROUP BOARD

Responsible for identifying the key risks

MANAGEMENT BOARD

Responsible for managing key risks and internal control procedures



OPERATIONAL TEAMS

Dedicated teams responsible for assessing and managing risks at operational level

Directors' report

The Directors present their annual report on the affairs of Bakkavor Group Limited (the 'Group'). This is accompanied by the financial statements and Auditor's Report for the 53 weeks ended 31 December 2016. Comparatives are for the 52 weeks ended 26 December 2015.

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 £51.3 million (2015: £51.9 million). The profit for the year is for the 53 weeks ended 31 December 2016 in comparison to the 52 weeks ended 26 December 2015 in the prior year. Further details of the Group's financial performance are outlined in the Financial Review on pages 21-25.

Important events since the end of the financial year

On 23 March 2017, the Group put in place a new £485 million corporate loan facility. The facility comprises a £210 million term loan and a £200 million revolving credit facility, both maturing in June 2021, and a further £75 million term loan maturing in June 2024. The Group used the funds from the new facility to repay in full existing bank debt and redeem all outstanding Senior Secured Notes. The new funding structure provides the Group with a significant reduction in interest costs whilst extending the maturity of the funding commitments.

Future development

We expect the trading environment to remain challenging over the coming year due to inflationary pressures on raw material and labour costs. We are actively engaged with our customers on this and are well placed for further growth as we work to deliver our long-term strategy.

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, 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 £8.9 million in the year (2015: £7.7 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.

Modern slavery

The Group complies with the provisions of the Modern Slavery Act 2015. The prevention, detection and reporting of modern slavery is the responsibility of all those working for the Group and any associated companies in accordance with the Group's values and its overarching commitment to acting ethically and with integrity in all business relationships.

Overseas subsidiaries

The Group completed the disposal of its business in Belgium in August 2016 and this marked the Group's exit from manufacturing operations in Continental Europe in line with its long-term strategy. Further information on the Company's subsidiaries is set out in note 9 to the Company's financial statements.

Directors

The Directors who served on the Board during 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)

R Berlin was appointed on 22 January 2016

T Krasnow was appointed on 22 January 2016

On 1 February 2017, D Hennequin and S Burke were appointed.

Dividends

The Directors do not propose payment of a dividend for the 53 weeks ended 31 December 2016 (2015: £3.4 million).

Financial risk management polices and objectives

Information about the Group's financial risk management objectives and policies, and 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 Group Limited has prepared a Strategic Report, which can be found on pages 12 to 32 of this Annual Report and which includes information about employee and environmental matters. The Strategic Report was approved by the Board of Directors on 10 April 2017.

By order of the Board
Director

Agust Gudmundsson
Chief Executive Officer

Independent Auditor's report to the members of Bakkavor Group Limited

We have audited the financial statements of Bakkavor Group Limited (the 'Company') and its subsidiaries (the 'Group') for the 53 weeks ended 31 December 2016 (the '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 40, 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 14. 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 31 December 2016 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.

William Smith MA FCA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor

London, UK

10 April 2017

CONSOLIDATED INCOME STATEMENT

53 WEEKS ENDED 31 DECEMBER 2016

£ million	Notes	53 weeks ended 31 December 2016 Before non-recurring items	 Non-recurring items	 Total	52 weeks ended 26 December 2015 Before non-recurring items	 Non-recurring items	 Total
Continuing operations							
Revenue	4,5	**1,763.6**	**–**	**1,763.6**	1,674.5	–	1,674.5
Cost of sales		**(1,275.9)**	**–**	**(1,275.9)**	(1,214.5)	–	(1,214.5)
Gross profit		**487.7**	**–**	**487.7**	460.0	–	460.0
Distribution costs		**(78.0)**	**–**	**(78.0)**	(74.8)	–	(74.8)
Other administrative costs		**(302.8)**	**–**	**(302.8)**	(297.0)	–	(297.0)
Exceptional items	7	**–**	**(8.0)**	**(8.0)**	–	(3.5)	(3.5)
Impairment of assets	8	**–**	**(8.2)**	**(8.2)**	–	–	–
Total administrative costs		**(302.8)**	**(16.2)**	**(319.0)**	(297.0)	(3.5)	(300.5)
Profit on disposal of subsidiary	32	**–**	**0.1**	**0.1**	–	–	–
Profit on disposal of associate	19,32	**–**	**–**	**–**	–	5.2	5.2
Share of results of associates after tax	19	**0.7**	**–**	**0.7**	0.8	–	0.8
Operating profit/(loss)		**107.6**	**(16.1)**	**91.5**	89.0	1.7	90.7
Investment revenue	5,10	**0.1**	**–**	**0.1**	0.3	–	0.3
Finance costs	11	**(36.6)**	**(2.2)**	**(38.8)**	(46.2)	(9.3)	(55.5)
Other gains and (losses)	12	**10.3**	**–**	**10.3**	11.7	–	11.7
Profit/(loss) before tax		**81.4**	**(18.3)**	**63.1**	54.8	(7.6)	47.2
Tax (charge)/credit	13	**(14.9)**	**2.6**	**(12.3)**	(10.9)	2.1	(8.8)
Profit/(loss) for the period from continuing operations		**66.5**	**(15.7)**	**50.8**	43.9	(5.5)	38.4
Discontinued operations							
Profit for the period from discontinued operations	14,32	**–**	**0.5**	**0.5**	3.1	10.4	13.5
Profit/(loss) for the period	6	**66.5**	**(15.2)**	**51.3**	47.0	4.9	51.9
Attributable to:							
Equity holders of the parent		**66.5**	**(15.2)**	**51.3**	45.7	4.9	50.6
Non-controlling interests		**–**	**–**	**–**	1.3	–	1.3
		66.5	**(15.2)**	**51.3**	47.0	4.9	51.9

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME AND EXPENSE

53 WEEKS ENDED 31 DECEMBER 2016

£ million	Notes	**53 weeks ended 31 December 2016**	52 weeks ended 26 December 2015
Profit for the period		**51.3**	51.9
Other comprehensive income/(expense)			
Items that will not be reclassified subsequently to profit or loss:			
Actuarial loss on defined benefit pension schemes	37	**(7.6)**	(14.4)
Tax relating to components of other comprehensive income	13	**1.4**	2.8
		(6.2)	(11.6)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		**16.5**	3.2
Exchange differences on translation of discontinued foreign operations		**–**	(1.9)
Net exchange gains recycled to income statement on disposal of subsidiaries	32	**(2.5)**	–
		14.0	1.3
Total other comprehensive income/(expense)		**7.8**	(10.3)
Total comprehensive income		**59.1**	41.6
Attributable to:			
Equity holders of the parent		**59.1**	41.1
Non-controlling interests		**–**	0.5
		59.1	41.6

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 DECEMBER 2016

£ million	Notes	**31 December 2016**	26 December 2015
Non-current assets			
Goodwill	15	**651.5**	642.9
Other intangible assets	16	**3.6**	5.1
Property, plant and equipment	17	**304.5**	281.2
Interests in associates	19	**13.3**	10.7
Other investments	20	**0.1**	0.1
Derivative financial instruments	25	**0.3**	0.1
		973.3	940.1
Current assets			
Inventories	21	**59.2**	57.5
Trade and other receivables	22	**190.7**	185.8
Cash and cash equivalents	23	**22.5**	97.0
Derivative financial instruments	25	**2.8**	0.4
		275.2	340.7
Total assets		**1,248.5**	1,280.8
Current liabilities			
Trade and other payables	28	**(432.1)**	(396.3)
Current tax liabilities		**(4.6)**	(6.2)
Borrowings	24	**(12.9)**	(14.9)
Obligations under finance leases	27	**(0.7)**	(0.5)
Provisions	29	**(3.4)**	(3.4)
Derivative financial instruments	25	**–**	(2.5)
Deferred income		**(0.7)**	(0.7)
		(454.4)	(424.5)
Non-current liabilities			
Trade and other payables	28	**(0.4)**	(0.3)
Borrowings	24	**(371.8)**	(465.8)
Obligations under finance leases	27	**(4.0)**	(4.4)
Provisions	29	**(11.2)**	(10.7)
Derivative financial instruments	25	**(0.1)**	–
Deferred tax liabilities	26	**(15.0)**	(16.5)
Retirement benefit obligation	37	**(10.0)**	(3.9)
Deferred income		**(2.8)**	(1.2)
		(415.3)	(502.8)
Total liabilities		**(869.7)**	(927.3)
Net assets		**378.8**	353.5
Equity			
Share capital	31	**1.0**	1.2
Merger reserve	31	**54.9**	54.9
Capital reserve	31	**98.8**	98.6
Translation reserve	31	**33.7**	19.7
Retained earnings		**190.4**	179.1
Total equity		**378.8**	353.5

The financial statements of Bakkavor Group Limited and the accompanying notes, which form an integral part of the consolidated financial statements, were approved by the Board of Directors on 10 April 2017. They were signed on behalf of the Board of Directors by:

A Gudmundsson
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

53 WEEKS ENDED 31 DECEMBER 2016

	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 27 December 2014	96.8	218.3	54.9	3.0	17.6	(74.8)	**315.8**	8.8	**324.6**
Profit for the period	–	–	–	–	–	50.6	**50.6**	1.3	**51.9**
Other comprehensive income/(expense) for the period	–	–	–	–	2.1	(11.6)	**(9.5)**	(0.8)	**(10.3)**
Total comprehensive income for the period	–	–	–	–	2.1	39.0	**41.1**	0.5	**41.6**
Reclassification of share premium (note 31)	–	(218.3)	–	–	–	218.3	**–**	–	**–**
Share buyback (note 31)	(95.6)	–	–	95.6	–	–	**–**	–	**–**
Dividends paid (note 31)	–	–	–	–	–	(3.4)	**(3.4)**	(1.3)	**(4.7)**
Disposal of non-controlling interest	–	–	–	–	–	–	**–**	(8.0)	**(8.0)**
Balance at 26 December 2015	1.2	–	54.9	98.6	19.7	179.1	**353.5**	–	**353.5**
Profit for the period	–	–	–	–	–	51.3	**51.3**	–	**51.3**
Other comprehensive income/(expense) for the period	–	–	–	–	14.0	(6.2)	**7.8**	–	**7.8**
Total comprehensive income for the period	–	–	–	–	14.0	45.1	**59.1**	–	**59.1**
Share buyback (note 31)	(0.2)	–	–	0.2	–	(33.8)	**(33.8)**	–	**(33.8)**
Balance at 31 December 2016	1.0	–	54.9	98.8	33.7	190.4	**378.8**	–	**378.8**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

53 WEEKS ENDED 31 DECEMBER 2016

£ million	Notes	53 weeks ended 31 December 2016	52 weeks ended 26 December 2015
Net cash generated from operating activities	34	**112.1**	105.0
Investing activities:			
Interest received		**0.1**	0.1
Dividends received from associates		**0.3**	0.6
Purchases of property, plant and equipment		**(67.3)**	(38.2)
Proceeds on disposal of property, plant and equipment		**0.1**	0.2
Acquisition of business	33	**–**	(19.6)
Disposal of subsidiaries net of cash disposed of	32	**2.4**	20.5
Disposal of associate	32	**–**	6.0
Net cash used in investing activities		**(64.4)**	(30.4)
Financing activities:			
Dividends paid to non-controlling interests		**–**	(1.3)
Dividends paid		**–**	(3.4)
Share buyback	31	**(33.8)**	–
Increase in borrowings		**–**	143.9
Repayments of borrowings		**(90.0)**	(140.6)
Repayments of obligations under finance leases		**(0.5)**	(0.7)
Net cash used in financing activities		**(124.3)**	(2.1)
Net (decrease)/increase in cash and cash equivalents		**(76.6)**	72.5
Cash and cash equivalents at beginning of period		**97.0**	24.6
Effect of foreign exchange rate changes		**2.1**	(0.1)
Cash and cash equivalents at end of period		**22.5**	97.0

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

1. General information

Bakkavor Group Limited (the 'Company') is a company 100% owned by Bakk AL Holdings Limited, a company registered in the British Virgin Islands.

The principal activities of the Company and its subsidiaries (the 'Group') comprise the preparation and marketing of fresh prepared foods and the marketing and distribution of fresh produce. These activities are undertaken in the UK, Continental Europe (until the sale of trade and assets of NV Vaco BV during the period – see note 32), China and the USA and products are primarily sold through high-street supermarkets. The Group's cash flows are affected by seasonal variations. Sales of fresh prepared food have historically tended to be marginally higher in the summer months and in the weeks leading up to Christmas. The Group generally has higher gross profit margins during the summer months because the Group is able to source locally produced raw materials during that period, which reduces costs.

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

Amendments:

IAS 1	Disclosure initiative (Dec 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)
Various	Annual Improvements 2012–2014 cycle (Sep 2014)

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 (Jul 2014)
IFRS 14	Regulatory Deferral Accounts (Jan 2014)
IFRS 15	Revenue from Contracts with Customers (May 2014)
IFRS 16	Leases (Jan 2016)

Amendments:

IFRS 2	Classification and Measurement of Share-based Payment Transactions (June 2016)
IFRS 4	Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts' (September 2016)
IAS 7	Disclosure Initiative (Jan 2016)
IFRS 10 & IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Sep 2014)
IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses (Jan 2016)
IFRS 11	Accounting for Acquisitions of Interests in Joint Operations (May 2014)
IFRS 15	Clarifications to IFRS 15 'Revenue from Contracts with Customers' (April 2016)
IFRIC 22	Foreign Currency Transactions and Advance Consideration (Dec 2016)
IAS 40	Transfers of Investment Property (Dec 2016)
Various	Annual Improvements to IFRS Standards 2014–2016 cycle (Dec 2016)
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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

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. Certain costs amounting to £8.1 million have been reclassified from Distribution costs to Cost of Sales for the 52 weeks ended 26 December 2015 to conform with the current period presentation. 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 2018.

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

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 2016 is quoted in these financial statements this relates to the 53-week period ended 31 December 2016. The fiscal year 2015 relates to the 52-week period ended 26 December 2015.

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 has 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 obtains control) and the resulting gain or loss, if any, is recognised in the income statement.

2. Significant accounting policies (continued)

Goodwill

Goodwill is initially recognised and measured as set out above under 'Business combinations'.

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 below under 'Investments in associates'.

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 is shown separately from continuing operations in the income statement and statement of comprehensive income. For details of discontinued operations 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 customer deductions and 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; and
- 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.

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 dates 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 may be either new in design or modifications of existing products. 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 pension 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; 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 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 excluding past service costs, 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.

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 period. 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 periods 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 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, none of which are internally generated, 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'.

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 over 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 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 forms 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.

2. Significant accounting policies (continued)

Financial liabilities (continued)

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indications 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 reorganisation.

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 either 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 cap and 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 distinct from 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, where either its existence 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.

3. Critical accounting judgements and key sources of estimation uncertainty

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:

Critical judgements in applying the Group's accounting policies

Pensions

The Group maintains a defined benefit pension plan for which it has recorded a pension asset/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 workforce. Details of the principal actuarial assumptions used in calculating the recognised asset/liability for the defined benefit plan are given in note 37.

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 £31.2 million (2015: £37.3 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.

Key sources of estimation uncertainty

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.

Impairment of property, plant and equipment

Reviews of the estimated remaining useful lives 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. See note 17 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 estimation. 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.

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 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 31 December 2016:

£ million	UK	International	Unallocated	Total Group	Discontinued operations	Continuing operations
Revenue	1,589.9	173.7	–	1,763.6	–	1,763.6
Segment profit	103.0	4.0	–	107.0	–	107.0
Exceptional items	(8.0)	–	–	(8.0)	–	(8.0)
Impairment of assets	(8.2)	–	–	(8.2)	–	(8.2)
Loss on disposal of property, plant and equipment	–	(0.1)	–	(0.1)	–	(0.1)
Profit on disposal of subsidiary	–	0.6	–	0.6	0.5	0.1
Share of results of associates	–	0.7	–	0.7	–	0.7
Operating profit	86.8	5.2	–	92.0	0.5	91.5
Investment revenue				0.1	–	0.1
Finance costs				(38.8)	–	(38.8)
Other gains and (losses)				10.3	–	10.3
Profit before tax				63.6	0.5	63.1
Tax				(12.3)	–	(12.3)
Profit for the period				51.3	0.5	50.8
Other segment information:						
Depreciation and amortisation	(34.7)	(4.7)	–	(39.4)	–	(39.4)
Adjusted EBITDA	137.7	8.7	–	146.4	–	146.4
Capital additions	59.9	8.3	–	68.2	–	68.2
Total assets	1,104.3	118.6	25.6	1,248.5	–	1,248.5

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.

4. Segment information (continued)

The following table provides an analysis of the Group's segment information for the period to 26 December 2015:

£ million	UK	International	Unallocated	Total Group	Discontinued operations	Continuing operations
Revenue	1,519.0	188.3	–	1,707.3	32.8	1,674.5
Segment profit	87.3	6.0	–	93.3	4.9	88.4
Exceptional items	(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	91.4	14.6	–	106.0	15.3	90.7
Investment revenue				0.3	–	0.3
Finance costs				(55.6)	(0.1)	(55.5)
Other gains and (losses)				11.7	–	11.7
Profit before tax				62.4	15.2	47.2
Tax				(10.5)	(1.7)	(8.8)
Profit for the period				51.9	13.5	38.4
Other segment information:						
Depreciation and amortisation	(36.7)	(5.3)	–	(42.0)	(0.8)	(41.2)
Adjusted EBITDA	124.0	11.3	–	135.3	5.7	129.6
Capital additions	36.0	6.5	–	42.5	1.1	41.4
Total assets	1,069.9	113.2	97.7	1,280.8	–	1,280.8

Discontinued operations in the current and prior period relate to the Group's International segment.

Major customers

In 2016 the Group's four largest customers accounted for 77% (2015: 76%) of total revenue from continuing operations, with no single customer representing more than 31% (2015: 30%) of revenue from continuing operations. The Group does not enter into long-term contracts with its retail customers.

5. Revenue

£ million	**2016**	2015
Continuing operations		
Sale of goods	**1,763.6**	1,674.5
Investment revenue	**0.1**	0.3
	1,763.7	1,674.8
Discontinued operations		
Sale of goods	**–**	32.8

6. Profit for the period

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

£ million	2016	2015
Continuing operations		
Depreciation of property, plant and equipment:		
• owned	**36.4**	34.8
• leased	**0.8**	0.5
Research and development costs	**8.9**	7.7
Cost of inventory recognised as an expense	**813.5**	779.3
Write-down of inventories recognised as an expense/(credit)	**1.5**	(0.4)
Amortisation of intangible assets	**2.2**	5.9
Impairment of assets (note 8)	**8.2**	–
Exceptional items (note 7)	**8.0**	3.5
Loss on disposal of property, plant and equipment	**0.1**	0.2
Profit on disposal of subsidiary (note 32)	**(0.1)**	–
Profit on disposal of associate (notes 19, 32)	**–**	(5.2)
Staff costs (note 9)	**442.5**	419.7

The analysis of Auditor remuneration is as follows:

£'000	2016	2015
The audit of the Company's subsidiaries pursuant to legislation	**367**	354
Total audit fees	**367**	354
Tax services	**655**	484
Corporate finance services	**–**	85
Other services	**2**	11
Total non-audit fees	**657**	580

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	2016	2015
Continuing operations		
Transaction costs	**5.2**	–
Restructuring costs	**1.3**	3.5
Legal case	**1.5**	–
	8.0	3.5

2016

The Group has incurred exceptional costs of £8.0 million, of which £5.2 million relate to the fees incurred in connection with the transactions that resulted in Bakk AL Holdings Limited owning 100% of the Company and becoming the parent company of the Group. £1.3 million is attributable to redundancy costs arising from business losses in one of the Group's UK operations. The remaining £1.5 million relates to legal and other costs in respect of an intellectual property dispute, at another UK business, that has now been settled.

2015

£1.1 million of restructuring costs relates 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 USA to cease trading. With the exception of the US costs the restructuring costs are mainly in respect of redundancy payments.

8. Impairment of assets

£ million	2016	2015
Continuing operations		
Impairment of property, plant and equipment	**8.2**	–
	8.2	–

The annual impairment review of the carrying value of goodwill and intangible assets has resulted in no impairment charge being recognised within the Group (2015: £nil).

During the period, the Group has impaired £8.2 million (2015: £nil) of property, plant and equipment within the UK segment. This follows a review which highlighted a number of assets whose carrying amount was greater than their recoverable amount.

9. Staff costs

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

	2016 Number	2015 Number
Continuing operations		
Production	**16,280**	15,791
Management and administration	**1,740**	1,632
Sales and distribution	**925**	891
	18,945	18,314

Their aggregate remuneration comprised:

£ million	2016	2015
Continuing operations		
Wages and salaries	**394.9**	375.1
Social security and other costs	**40.2**	37.9
Other pension costs (note 37)	**7.4**	6.7
	442.5	419.7

The Directors' emoluments were as follows:

£'000	2016	2015
Directors' emoluments excluding pension contributions	**1,703**	848
Directors' pension contributions	**40**	95
	1,743	943

The aggregate emoluments of the highest paid Director were £1,369,949 (2015: £546,363). The pension contributions of the highest paid Director at 31 December 2016 were £8,050 (2015: £58,050). Two Directors are members of the defined contribution scheme.

10. Investment revenue

£ million	**2016**	2015
Continuing operations		
Interest on bank deposits	**0.1**	0.1
Interest on loan to related party	**–**	0.2
	0.1	0.3

11. Finance costs

£ million	**2016**	2015
Continuing operations		
Interest on borrowings	**34.0**	42.5
Interest on obligations under finance leases	**0.2**	0.2
Amortisation of refinancing costs	**2.8**	6.7
Call premium for 2018 Senior Secured Notes	**1.5**	5.8
Unwinding of discount on provisions (note 29)	**0.3**	0.3
	38.8	55.5

The call premium of £1.5 million (2015: £5.8 million) and the £0.7 million (2015: £3.5 million) of accelerated amortisation of refinancing fees relating to the part-redemption of the 2018 Senior Secured Notes have been classed as non-recurring items in the consolidated income statement.

12. Other gains and (losses)

£ million	**2016**	2015
Continuing operations		
Change in the fair value of derivative financial instruments	**4.6**	4.2
Change in fair value of call option (note 24)	**6.5**	10.7
Change in fair value of Other payables	**–**	(3.3)
Foreign exchange (losses)/gains	**(0.8)**	0.1
	10.3	11.7

13. Tax

£ million	**2016**	2015
Continuing operations		
Current tax:		
Current period	**11.9**	6.4
Prior period adjustment	**0.5**	(0.3)
Deferred tax:		
Current period (note 26)	**0.1**	1.9
Prior period adjustment (note 26)	**(0.2)**	0.8
Tax charge for the period	**12.3**	8.8

Corporation tax is calculated at 20% (2015: 20.25%) of the estimated assessable profit for the period. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

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

	2016 £ million	**2016 %**	2015 £ million	2015 %
Profit before tax:	**63.1**	**100.0**	47.2	100.0
Tax charge at the UK corporation tax rate of 20% (2015: 20.25%)	**12.6**	**20.0**	9.6	20.2
Non-deductible expenses	**2.7**	**4.2**	1.4	3.0
Adjustment in respect of prior periods	**0.3**	**0.5**	0.5	1.1
Tax effect of losses carried forward not recognised	**0.7**	**1.1**	0.4	0.9
Unprovided deferred tax assets now recognised	**(2.8)**	**(4.4)**	(0.8)	(1.7)
Overseas taxes at different rates	**0.3**	**0.5**	–	–
Release of deferred tax on IBA reversal	**(0.7)**	**(1.1)**	(0.8)	(1.7)
Deferred tax change in rate	**(0.8)**	**(1.3)**	(1.5)	(3.2)
Tax charge and effective tax rate for the period	**12.3**	**19.5**	8.8	18.6

In addition to the amount charged to the income statement, a £1.4 million credit (2015: £2.8 million credit) relating to tax on the defined benefit pension scheme actuarial loss 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 Act 2016, the UK corporation tax rate will reduce to 19% in 2017 and 17% in 2020.

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

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CONTINUED

14. Discontinued operations

2016

In July 2016, the Group received a further £0.5 million cash consideration in relation to its French and Spanish businesses that were sold in April 2013. This has been disclosed in the income statement within discontinued operations as these businesses were classed as discontinued in 2013.

2015

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). The net cash generated was £20.5 million as there was £1.5 million cash included in the assets of Italpizza S.r.l when it was sold.

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 operations have been included in the consolidated income statement as follows:

£ million	Notes	**53 weeks ended 31 December 2016**	52 weeks ended 26 December 2015
Discontinued operations			
Revenue	4,5	**–**	32.8
Cost of sales		**–**	(21.0)
Gross profit		**–**	11.8
Distribution costs		**–**	(1.4)
Total administrative costs		**–**	(5.5)
Profit on disposal of subsidiary	32	**0.5**	10.4
Operating profit		**0.5**	15.3
Finance costs		**–**	(0.1)
Profit before tax		**0.5**	15.2
Tax		**–**	(1.7)
Profit for the period from discontinued operations		**0.5**	13.5
Attributable to:			
Equity holders of the parent		**0.5**	12.2
Non-controlling interests		**–**	1.3
		0.5	13.5

During the period, discontinued operations used £nil (2015: £0.5 million) of the Group's net operating cash flows, paid £nil (2015: £1.4 million) in respect of investing activities (excluding proceeds from the disposal of the business) and received £nil (2015: £0.6 million) in respect of financing activities.

15. Goodwill

£ million	
Cost	
At 27 December 2014	712.2
Acquisition of business	14.5
Disposal of subsidiary	(33.9)
Exchange differences	1.0
At 26 December 2015	693.8
Exchange differences	10.7
At 31 December 2016	704.5
Accumulated impairment losses	
At 27 December 2014	(70.1)
Disposal of subsidiary	20.0
Exchange differences	(0.8)
At 26 December 2015	(50.9)
Exchange differences	(2.1)
At 31 December 2016	(53.0)
Carrying amount	
At 31 December 2016	651.5
At 26 December 2015	642.9

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	**31 December 2016**	26 December 2015
UK	**601.5**	601.5
International	**50.0**	41.4
	651.5	642.9

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 (2015: £nil).

15. Goodwill (continued)

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

- Discount rates: Management uses pre-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 9.1% to 10.8% (2015: 9.5% to 10.3%).
- 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 has prepared cash flow forecasts derived from the most recent financial budgets approved by management for the next three years as determined by the 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% (2015: 2%). 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 CGU's carrying value. The assumptions used, and the impact of sensitivities on these assumptions, are shown below:

£ million	UK	International
Sensitivity:		
Headroom of impairment test based on management assumptions	317.5	7.5

If the pre-tax discount rate were to be increased by 5%, there would be no impairment charge, while for an increase of 10% the impairment charge would be £2.3 million. A 10% reduction in the perpetuity growth rate would not result in an impairment charge. Furthermore, management continually reviews 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 27 December 2014	89.6	1.6	91.2
Acquisition of business	3.2	–	3.2
Disposal of subsidiary	(4.9)	–	(4.9)
Exchange differences	(0.3)	–	(0.3)
At 26 December 2015	87.6	1.6	89.2
Exchange differences	1.1	–	1.1
At 31 December 2016	88.7	1.6	90.3
Accumulated amortisation and impairment			
At 27 December 2014	(80.2)	(1.6)	(81.8)
Disposal of subsidiary	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)
Charge for the period	(2.2)	–	(2.2)
Exchange differences	(0.4)	–	(0.4)
At 31 December 2016	(85.1)	(1.6)	(86.7)
Carrying amount			
At 31 December 2016	3.6	–	3.6
At 27 December 2015	5.1	–	5.1

17. Property, plant and equipment

£ million	Land and buildings	Plant and machinery	Fixtures and equipment	Total
Cost				
At 27 December 2014	189.2	345.9	57.3	592.4
Additions	4.1	32.2	6.2	42.5
Acquisition of business	–	1.0	–	1.0
Disposals	(0.3)	(3.0)	(0.7)	(4.0)
Disposal of subsidiary	(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
Additions	5.0	58.2	5.0	68.2
Disposals	–	(2.8)	(0.6)	(3.4)
Disposal of subsidiary (note 32)	(7.0)	(16.3)	(1.3)	(24.6)
Reclassifications	0.1	–	(0.1)	–
Exchange differences	4.8	6.8	1.0	12.6
At 31 December 2016	194.7	409.0	65.8	669.5
Accumulated depreciation and impairment				
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	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)
Charge for the period	(5.8)	(26.3)	(5.1)	(37.2)
Impairment	(0.6)	(7.4)	(0.2)	(8.2)
Disposals	–	2.6	0.6	3.2
Disposal of subsidiary (note 32)	7.2	10.6	2.1	19.9
Reclassifications	(0.1)	0.2	0.1	0.2
Exchange differences	(2.5)	(4.1)	(0.8)	(7.4)
At 31 December 2016	(104.6)	(213.7)	(46.7)	(365.0)
Carrying amount				
At 31 December 2016	90.1	195.3	19.1	304.5
At 26 December 2015	89.0	173.8	18.4	281.2

The carrying value of the Group's plant and machinery includes an amount of £4.6 million (2015: £5.0 million) in respect of assets held under finance leases.

At 31 December 2016, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £2.6 million (2015: £4.2 million).

During the period, the Group has impaired £8.2 million (2015: £nil) of property, plant and equipment.

18. Subsidiaries

The Group consists of a parent company, Bakkavor Group Limited, incorporated in the UK, and a number of subsidiaries and associates held directly and indirectly by Bakkavor Group Limited. Note 9 to the Company's separate financial statements lists details of the interests in subsidiaries.

19. Interests in associates

Details of the associated undertakings of the Group at 31 December 2016 were as follows:

	Place of registration and operation	Principal activity	Proportion of Ordinary shares 2016	2015	Method of accounting
Name of associate					
La Rose Noire Limited	Hong Kong	Producer of bakery and pastry products	**45%**	45%	Equity

£ million	Manor Fresh Limited	La Rose Noire Limited	Total
Associates that are not individually material			
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
Share of profit after tax	–	0.7	0.7
Exchange differences	–	2.2	2.2
Dividend payment	–	(0.3)	(0.3)
At 31 December 2016	–	13.3	13.3

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 UK for a cash consideration of £6.0 million. The transaction resulted in a profit on sale of associate of £5.2 million being recorded in the income statement in 2015.

20. Other investments

£ million	Non-listed investments held at cost
At 26 December 2015	0.1
At 31 December 2016	0.1

21. Inventories

£ million	**31 December 2016**	26 December 2015
Raw materials and packaging	**50.9**	48.3
Work-in-progress	**2.0**	3.2
Finished goods	**6.3**	6.0
	59.2	57.5

22. Trade and other receivables

£ million	31 December 2016	26 December 2015
Amounts receivable from trade customers	**163.3**	155.1
Allowance for doubtful debts	**(1.1)**	(0.6)
Net amounts receivable from trade customers	**162.2**	154.5
Other receivables	**17.9**	21.2
Prepayments	**10.6**	10.1
	190.7	185.8

The Group has a £50 million (2015: £65 million) receivables securitisation facility which it can draw against, up to a maximum of 72% of its net eligible receivables balance for certain UK customers. As at 31 December 2016 the Group had not drawn against this facility (2015: £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 (2015: 32 days). An allowance has been made for estimated irrecoverable amounts from the sale of goods of £1.1 million (2015: £0.6 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	31 December 2016	26 December 2015
Not past due	**137.3**	136.6
Past due by 1 – 30 days	**23.6**	16.2
Past due by 31 – 60 days	**0.7**	1.2
Past due by 61 – 90 days	**0.6**	0.3
Past due by more than 90 days	**1.1**	0.8
	163.3	155.1

Trade receivables renegotiated in 2016 that would otherwise have been past due or impaired amounted to £nil (2015: £nil).

The majority of the Group's customers are leading UK retailers, representing more than 77% (2015: 76%) of the Group's revenue from continuing operations and holding favourable credit ratings. On this basis the Group does not see any need to charge interest, or 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	31 December 2016	26 December 2015
Balance at beginning of the period	**(0.6)**	(1.0)
Allowances recognised against receivables	**(0.7)**	(0.4)
Amounts written off as uncollectible during the period	**–**	0.4
Amounts recovered during the period	**0.1**	0.1
Allowance reversed	**0.1**	0.3
Balance at end of the period	**(1.1)**	(0.6)

23. Cash and cash equivalents

£ million	31 December 2016	26 December 2015
Cash and cash equivalents	**22.5**	97.0

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

Bakkavor Finance (2) plc Senior Secured Notes

8.25% Senior Secured Notes

The Group has £117 million (2015: £192 million) of 8.25% Senior Secured Notes due 2018 outstanding following the early repayment of £75 million (2015: £140 million) of the Notes in February 2016 (2015: 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 (2015: £150 million) of 8.75% Senior Secured Notes due 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 £50 million (2015: £65 million) receivables securitisation facility that matures in February 2018. The maximum drawing of the facility depends on the size of the Group's receivable book for certain UK customers 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 for the relevant customers 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% (2015: Libor plus a margin of 2.85%). As at 31 December 2016, the Group had no drawings under this facility (2015: £nil). The facility is subject to a non-utilisation fee of 1.4% (2015: 1.4%).

Bakkavor Finance (2) plc bank facilities

The Group's total banking facilities amount to £205 million (2015: £220 million) comprising (i) a £135 million term loan (2015: £150 million term loan), split £10 million and £125 million maturing on 31 December 2017 and 15 February 2018 respectively and (ii) £70 million Revolving Credit Facilities ('RCF') (2015: £70 million RCF), which includes an overdraft and money market facility of £16.5 million (2015: £16.5 million) and further ancilliary facilities of £12.4 million (2015: £12.4 million).

The Group has repaid £15 million (2015: £nil) of the term loan as at 31 December 2016 and therefore the balance owing at that date was £135 million (2015: £150 million). At 31 December 2016 there were no drawings under the RCF and overdraft facilities (2015: £nil).

Of the outstanding term loan amount, £10 million will be repaid in instalments of £5 million every six months with 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 31 December 2016 was Libor plus a margin of 2.50% (2015: 3.00%).

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.

On 23 March 2017, the Group completed a refinancing of its current debt facilities. See note 39 for further details.

24. Borrowings (continued)

£ million	31 December 2016	26 December 2015
Bank overdrafts	–	0.1
Bank loans	**135.2**	149.8
Receivables securitisation	–	(0.2)
8.25% Senior Secured Notes	**119.9**	195.8
8.75% Senior Secured Notes	**129.6**	135.2
	384.7	480.7
Borrowings repayable as follows:		
On demand or within one year	**12.9**	14.9
In the second year	**241.1**	7.8
In the third to fifth years inclusive	**130.7**	458.0
	384.7	480.7
Analysed as:		
Amount due for settlement within 12 months (shown within current liabilities)	**12.9**	14.9
Amount due for settlement after 12 months	**371.8**	465.8
	384.7	480.7

The Group has not drawn against the receivables facility as at 31 December 2016 (2015: £nil) and as such the £nil (2015: £(0.2) million) receivables securitisation credit represents unamortised fees.

As at 31 December 2016 and 26 December 2015 all of the Group's borrowings were denominated in Sterling.

	31 December 2016 %	26 December 2015 %
The weighted average interest rates paid were as follows:		
Senior Secured Notes and bank loans	**6.64**	6.97

The Group had an interest rate swap (2015: £63.2 million) in place which matured in September 2016. This has been replaced by a £75 million notional principal interest rate cap that matures in October 2019. 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 values 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 31 December 2016 the fair value of the call option amounted to an asset of £17.2 million (2015: £10.7 million) with a gain of £6.5 million (2015: £10.7 million gain) recognised in the period in 'Other gains and (losses)' in the income statement.

24. Borrowings (continued)

£ million	31 December 2016	26 December 2015
Analysis of net debt		
Cash and cash equivalents	**22.5**	97.0
Borrowings	**(10.0)**	(10.0)
Unamortised fees	**1.9**	2.4
Interest accrual	**(4.8)**	(7.3)
Finance leases	**(0.7)**	(0.5)
Debt due within one year	**(13.6)**	(15.4)
Borrowings	**(390.9)**	(480.7)
Unamortised fees	**1.9**	4.2
Fair value of call option	**17.2**	10.7
Finance leases	**(4.0)**	(4.4)
Debt due after one year	**(375.8)**	(470.2)
Group statutory net debt	**(366.9)**	(388.6)
Group statutory net debt	**(366.9)**	(388.6)
Unamortised fees	**(3.8)**	(6.6)
Interest accrual	**4.8**	7.3
Fair value of call option	**(17.2)**	(10.7)
Group operational net debt	**(383.1)**	(398.6)

25. Derivative financial instruments

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

£ million	31 December 2016	26 December 2015
Foreign currency contracts	**–**	0.1
Interest rate contracts	**0.3**	–
Included in non-current assets	**0.3**	0.1
Foreign currency contracts	**2.8**	0.4
Included in current assets	**2.8**	0.4
Foreign currency contracts	**–**	(0.5)
Interest rate contracts	**–**	(2.0)
Included in current liabilities	**–**	(2.5)
Foreign currency contracts	**(0.1)**	–
Included in non-current liabilities	**(0.1)**	–
Total	**3.0**	(2.0)

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

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 and accrued interest	Impairment losses	Retirement benefit obligations	Total
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
Charge/(credit) to income – continuing operations	(0.8)	2.1	(0.3)	(2.1)	0.6	0.4	(0.1)
Credit to equity	–	–	–	–	–	(1.4)	(1.4)
At 31 December 2016	15.7	3.7	0.1	(2.6)	(0.2)	(1.7)	15.0

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 £31.2 million (2015: £37.3 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	**31 December 2016**	26 December 2015	**31 December 2016**	26 December 2015
Amounts payable under finance leases:				
Within one year	**0.9**	0.8	**0.7**	0.5
In the second to fifth years inclusive	**3.1**	3.3	**2.8**	2.8
Over five years	**1.3**	1.7	**1.2**	1.6
	5.3	5.8	**4.7**	4.9
Less: future finance charges	**(0.6)**	(0.9)		
Present value of lease obligations	**4.7**	4.9	**4.7**	4.9
Analysed as:				
Amount due for settlement within 12 months (shown within current liabilities)			**0.7**	0.5
Amount due for settlement after 12 months			**4.0**	4.4
			4.7	4.9

The weighted average lease term outstanding is 6.3 years (2015: 7.5 years). For the 53 weeks ended 31 December 2016, the weighted average effective borrowing rate was 4.64% (2015: 4.73%). 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.

28. Trade and other payables

£ million	31 December 2016	26 December 2015
Trade payables	**215.8**	203.5
Social security and other taxation	**1.9**	2.1
Other payables	**25.0**	27.2
Accruals	**189.8**	163.8
	432.5	396.6
Less: amounts due after one year		
Other payables	**(0.4)**	(0.3)
Trade and other payables due within one year	**432.1**	396.3

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 59 days (2015: 60 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 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
At 26 December 2015	1.0	13.1	14.1
Utilisation of provision	(0.6)	(0.1)	(0.7)
Increase/(release) of provision	1.2	(0.3)	0.9
Unwinding of discount	–	0.3	0.3
At 31 December 2016	1.6	13.0	14.6
Included in current liabilities	0.6	2.8	3.4
Included in non-current liabilities	1.0	10.2	11.2

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/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' returns.

30. Financial instruments (continued)

Gearing ratio

The gearing ratio at the period end was as follows:

£ million	31 December 2016	26 December 2015
Debt	**389.4**	485.6
Cash and cash equivalents	**(22.5)**	(97.0)
Net debt	**366.9**	388.6
Equity	**378.8**	353.5
Net debt to net debt plus equity	**49.2%**	52.4%

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	31 December 2016	26 December 2015
Financial assets		
Fair value through profit and loss:		
Derivative financial instruments	**3.1**	0.5
Call option on Senior Secured Notes due 2020	**17.2**	10.7
Loans and receivables at amortised cost:		
Trade receivables	**162.2**	154.5
Other receivables	**17.9**	21.2
Cash and cash equivalents	**22.5**	97.0
	222.9	283.9

£ million	31 December 2016	26 December 2015
Financial liabilities		
Fair value through profit and loss:		
Derivative financial instruments	**0.1**	2.5
Other payables	**4.3**	4.3
Other financial liabilities at amortised cost:		
Trade payables	**215.8**	203.5
Other payables	**20.7**	22.9
Borrowings	**401.9**	491.4
Finance leases	**4.7**	4.9
	647.5	729.5

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, other payables 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 and mitigate these risks where possible and does this by constantly monitoring and using a range of measures including 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.

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 and caps to mitigate the risk of rising interest rates; and
- 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 in 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 the accounts 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 53-week period to 31 December 2016, the Euro strengthened against Sterling by 14.1%, with the closing rate at €1.1715 compared to €1.3634 at the prior period end. The average rate for the 53-week period to 31 December 2016 was €1.2234, an 11.2% strengthening of the Euro versus the prior period.

In the same period the US Dollar strengthened against Sterling by 17.3%, with the closing rate at $1.2357 compared to $1.4941 at the prior period end. The average rate for the period to 31 December 2016 was $1.3537, an 11.4% strengthening of the US Dollar versus the prior period.

The net foreign exchange impact on profit from transactions is a loss of £0.6 million (2015: gain of £0.1 million).

Foreign currency sensitivity analysis

A sensitivity analysis has been performed on the financial assets and liabilities based on a 10% increase/decrease in the exchange rates. A 10% increase/decrease has been used as it represents management's assessment of a 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	**31 December 2016**	26 December 2015	**31 December 2016**	26 December 2015
Euro	**(6.1)**	(4.0)	**7.4**	4.9
US Dollar	**(1.5)**	(1.3)	**1.8**	1.6
Hong Kong Dollar	**(0.2)**	(0.3)	**0.3**	0.2
Renminbi	**(0.1)**	(0.1)	**0.2**	0.1

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 and minimise the exposure generated.

The following table details Sterling foreign currency contracts outstanding as at 31 December 2016:

	Foreign currency (million)		**Average exchange rate**		**Contract value (£ million)**		**Fair value (£ million)**	
Outstanding contracts	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Net Euros:								
3 months or less	**35.2**	33.1	**1.19**	1.35	**28.9**	24.6	**1.3**	(0.3)
3 to 6 months	**27.2**	21.3	**1.18**	1.34	**22.7**	15.9	**0.6**	(0.2)
6 to 12 months	**29.4**	20.7	**1.16**	1.36	**25.1**	15.0	**0.2**	0.3
Over 12 months	**10.8**	5.9	**1.15**	1.36	**9.4**	4.3	**(0.1)**	0.1
Net US Dollars:								
3 months or less	**5.4**	3.4	**1.35**	1.53	**4.0**	2.2	**0.3**	–
3 to 6 months	**11.9**	4.2	**1.34**	1.50	**9.3**	2.8	**0.2**	–
6 to 12 months	**3.9**	7.0	**1.25**	1.50	**3.0**	4.7	**0.2**	0.1
Over 12 months	**0.1**	3.0	**1.26**	1.49	**0.1**	2.1	**–**	–
					102.5	71.6	**2.7**	–

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30. Financial instruments (continued)

Foreign currency risk management (continued)

Foreign exchange contracts (continued)

The following table details the US Dollar foreign currency contracts outstanding as at 31 December 2016:

Outstanding contracts	Foreign currency (million) 2016	Foreign currency (million) 2015	Average exchange rate 2016	Average exchange rate 2015	Contract value (US$ million) 2016	Contract value (US$ million) 2015	Fair value (US$ million) 2016	Fair value (US$ million) 2015	Fair value (£ million) 2016	Fair value (£ million) 2015
Net Canadian Dollars:										
Less than 3 months	**2.1**	–	**1.33**	–	**2.8**	–	**–**	–	**–**	–
3 to 6 months	**1.1**	–	**1.33**	–	**1.4**	–	**–**	–	**–**	–
						–	**–**	–	**–**	–

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 and caps to minimise the risk associated with variable interest rates. At the period end 18.7% of the Group's borrowings were covered by an interest rate cap, while in the previous period there was an interest rate swap that covered 12.9% of the Group's borrowings. In addition the Group has in issue £117 million (2015: £192 million) of 8.25% and £150 million (2015: £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-point increase or decrease has been used, as these are management's assessment of reasonably possible changes in interest rates.

£ million	**Profit/(loss) 31 December 2016**	Profit/(loss) 26 December 2015
Effects of 100 basis-point increase in interest rate	**(0.9)**	(0.9)
Effects of 100 basis-point decrease in interest rate	**1.4**	0.9

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

Interest rate cap/swaps

The Group has entered into an interest rate cap agreement following the maturity of an interest rate swap in September 2016. This is to mitigate the risk of changing interest rates on the outstanding variable rate borrowings. The fair value of the interest rate cap 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 following table details the notional principal amounts and remaining terms of interest rate cap/swap contracts outstanding as at 31 December 2016:

	Average contract fixed interest rate 2016 %	Average contract fixed interest rate 2015 %	Notional principal amount 2016 £ million	Notional principal amount 2015 £ million	Fair value 2016 £ million	Fair value 2015 £ million
Interest rate swaps						
9 to 12 months	**–**	4.90	**–**	63.2	**–**	(2.0)
Interest rate caps						
Over 12 months	**0.75**	–	**75.0**	–	**0.3**	–

The interest rate cap settles on a quarterly basis. The Group will receive payment if the three-month Libor rate exceeds the agreed cap of 0.75%.

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 in regard to 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 77% (2015: 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 £135 million term loan (2015: £150 million) and a £70 million RCF facility (2015: £70 million), through a bank syndicate. Coöperatieve Rabobank U.A. is the syndicate agent of this facility and manages 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 31 December 2016 the fair value of the call option amounted to an asset of £17.2 million (2015: £10.7 million) based on a credit spread of 263 basis points. With a 100 basis-point increase in the credit spread the asset would reduce to £12.8 million. With a 100 basis-point decrease in the credit spread the asset would increase to £21.7 million.

Commodity risk management

The Group acquires substantial amounts of raw materials for its operations, including dairy products, 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; it also tenders frequently to benchmark market prices. In general our requirements are managed using contracts for periods of between three to 12 months forward. The Group also manages 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 to ensure that adequate liquidity is available to meet 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 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.

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	31 December 2016	26 December 2015
Due within one year:		
Trade payables	**215.8**	203.5
Other payables	**24.6**	26.9
Derivative financial instruments	**–**	2.5
Borrowings	**10.0**	10.0
Finance leases	**0.7**	0.5
Interest on borrowings	**31.2**	33.7
Total due within one year	**282.3**	277.1
In the second to fifth years inclusive:		
Other payables	**0.4**	0.3
Derivative financial instruments	**0.1**	–
Borrowings	**391.9**	481.9
Finance leases	**2.8**	2.8
Interest on borrowings	**39.6**	75.4
Total due in the second to fifth years	**434.8**	560.4
Due after five years:		
Finance leases	**1.2**	1.6
Total due after five years	**1.2**	1.6

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	**31 December 2016**	26 December 2015
Issued and fully paid:		
104,774,006 (2015: 117,279,611) Ordinary shares of £0.01 each	**1.0**	1.2

On 5 April 2016, the Company received an interim cash dividend of £36,250,000 from its subsidiary undertaking, Bakkavor Finance (1) Limited. £33,822,000 of the dividend was used to finance the buyback of 12,505,605 of the Ordinary shares of £0.01 each in the Company on 16 November 2016 as required under the terms of the transaction of 25 January 2016 that resulted in Bakk AL Holdings Limited becoming the parent undertaking of the Company. Following the buyback Bakk AL Holdings Limited owns 100% of the Ordinary shares of the Company.

On 28 April 2015, the Company agreed to a buyback of the 96,647,644 deferred shares of £0.99 each for a total consideration of £1 which resulted in a credit of £95.6 million to the capital reserve.

On 11 May 2015, Bakkavor Group Limited declared an interim dividend for the period ended 26 December 2015 of 2.90p per share to each of the Ordinary shareholders totalling £3,400,000 which was paid on 21 May 2015. No dividends have been declared in the period ended 31 December 2016.

Share premium

In April 2015, a resolution was passed to cancel the whole of the Group's share premium account of £218,350,092, as part of a capital reduction proposal which increased the distributable reserves of the Group.

Merger reserve

In 2007, a corporate reorganisation was completed to establish Bakkavor Group Limited as an intermediate holding company of the Group and was accounted for using the principles of merger accounting.

Capital reserve

Following the buyback on 16 November 2016, £0.2 million was credited to the capital reserve. In 2015, £95.6 million was credited following the buyback of the deferred shares as noted above.

In 2012, Bakkavor Group Limited assumed responsibility for the ultimate settlement of a disputed liability to Kaupthing Bank on behalf of Bakkavor Group ehf, in relation to an interest swap arrangement and in that respect 1,554,310 Ordinary shares of £0.01 each in the capital of the Company have been provisionally allotted. The fair value of these shares as at the date of the agreement was determined to be £1.0 million. As a result of this transaction a debit of £1.0 million was recorded in reserves with a liability of £1.0 million recognised in trade and other payables. The liability is required to be held at fair value and at 31 December 2016 this value amounted to £4.3 million (2015: £4.3 million).

In 2009, £4.0 million was credited to the capital reserve 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.

32. Disposals

2016

Disposal of subsidiary

On 1 August 2016, the Group completed the sale of the trade and assets of its Belgian fresh prepared food business, NV Vaco BV, to Culinor Food Group for a cash consideration of €3.2 million (£2.7 million). The transaction has resulted in a profit on disposal of £0.1 million being recorded in the income statement.

The net assets of the business at the date of disposal were as follows:

£ million	01 August 2016
Property, plant and equipment	4.7
Inventories	1.5
Trade and other receivables	5.7
Trade and other payables	(7.2)
Net assets	4.7
Disposal costs	0.4
Recycling of net foreign exchange gain	(2.5)
Profit on disposal	0.1
Total cash consideration	2.7
The cash inflow arising on disposal of the business was as follows:	
Total cash consideration	2.7
Disposal costs	(0.4)
Net cash consideration	2.3
Consideration in escrow	(0.4)
Net cash consideration received	**1.9**

In July 2016, the Group received a further £0.5 million cash consideration in relation to its French and Spanish businesses that were sold in April 2013. This has been disclosed in the income statement within discontinued operations.

2015

Disposal of subsidiary

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 cash generated was £20.5 million as there was £1.5 million cash included in the assets of Italpizza S.r.l when it was sold.

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 UK, 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.

33. Acquisitions

2016

There have been no acquisitions in the period.

2015

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 USA for a cash consideration of £19.6 million (US$ 30.5 million).

34. Notes to the statement of cash flows

£ million	**31 December 2016**	26 December 2015
Operating profit		
– continuing operations	**91.5**	90.7
– discontinued operations	**0.5**	15.3
	92.0	106.0
Adjustments for:		
Share of results of associates	**(0.7)**	(0.8)
Depreciation of property, plant and equipment	**37.2**	35.9
Amortisation of intangible assets	**2.2**	6.1
Loss on disposal of property, plant and equipment	**0.1**	0.2
Profit on disposal of subsidiaries (note 32)	**(0.6)**	(10.4)
Profit on disposal of associate (note 32)	**–**	(5.2)
Impairment of assets	**8.2**	–
Net retirement benefits charge less contributions	**(1.5)**	(3.8)
Operating cash flows before movements in working capital	**136.9**	128.0
(Increase)/decrease in inventories	**(3.4)**	1.7
(Increase)/decrease in receivables	**(12.6)**	3.3
Increase in payables	**43.1**	43.2
Increase in provisions	**0.2**	2.0
Increase/(decrease) in exceptional creditor	**0.4**	(1.7)
Cash generated by operations	**164.6**	176.5
Income taxes paid	**(13.3)**	(18.2)
Interest paid	**(39.2)**	(53.3)
Net cash from operating activities	**112.1**	105.0

35. 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 31 December 2016, the Group had purchase commitments for the next 12 months to guarantee supply and price of raw materials of £102.4 million (2015: £112.5 million).

36. Operating lease arrangements

The Group as lessee

£ million	2016	2015
Continuing operations		
Minimum lease payments under operating leases recognised as an expense in the period	**12.1**	12.4

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	**31 December 2016**	26 December 2015	**31 December 2016**	26 December 2015
Operating leases which expire:				
Within one year	**5.3**	7.7	**3.2**	3.6
Within two to five years	**25.9**	25.6	**5.5**	5.9
After five years	**63.0**	51.0	**0.1**	–
	94.2	84.3	**8.8**	9.5

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.

37. 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 'The 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	2016	2015
UK defined benefit scheme net charge	**1.1**	0.7
UK defined contribution scheme net charge	**6.2**	5.9
Overseas net charge	**0.1**	0.1
Total charge	**7.4**	6.7

Defined contribution schemes

The total cost charged to income of £6.3 million (2015: £6.0 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 (2015: £nil).

37. Retirement benefit schemes (continued)

Defined benefit schemes

An actuarial valuation of Scheme assets and the present value of the defined benefit obligation for funding purposes is being carried out as at 31 March 2016. Preliminary results from this valuation were updated for IAS 19 'Employee Benefits' purposes to 31 December 2016 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:

	31 December 2016	26 December 2015
Future pension increases (majority of liabilities)	**3.10%**	3.00%
Discount rate applied to Scheme liabilities	**2.55%**	3.75%
Inflation assumption (CPI)	**2.25%**	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% p.a. long-term trend, giving life expectancies as follows:

	Males' expected future lifetime 2016	Males' expected future lifetime 2015	**Females' expected future lifetime 2016**	Females' expected future lifetime 2015
Member aged 45	**42.1**	42.1	**44.3**	44.3
Member aged 65	**22.4**	22.4	**24.5**	24.4

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 £51.8 million/increase £70.5 million
Rate of inflation	Increase/decrease by 0.5%	Increase £19.6 million/decrease £19.9 million
Life expectancy	Members assumed to be one year younger than their actual age	Increase £10.3 million

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

£ million	**2016**	2015
Net interest on net defined benefit asset/liability	**0.1**	(0.3)
Administration costs incurred during the period	**1.0**	1.0
Total charge	**1.1**	0.7

All of the charges for each period presented have been included in total administrative expenses. The actuarial loss of £7.6 million (2015: £14.4 million loss) has been reported in other comprehensive income.

The actual return on Scheme assets was an increase of £55.4 million (2015: £1.7 million decrease).

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	**31 December 2016**	26 December 2015
Fair value of Scheme assets	**252.6**	211.2
Present value of defined benefit obligations	**(262.6)**	(215.1)
Scheme deficit	**(10.0)**	(3.9)
Related deferred taxation asset	**1.7**	0.7
	(8.3)	(3.2)

37. 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	31 December 2016	26 December 2015
Opening balance	(215.1)	(213.5)
Interest cost on the DBO	(7.8)	(8.1)
Benefits paid from Scheme assets	15.6	10.8
Actuarial gain – experience	6.6	–
Actuarial loss – financial assumptions	(61.9)	(4.3)
Closing balance	(262.6)	(215.1)

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

£ million	31 December 2016	26 December 2015
Opening balance	211.2	220.2
Interest income on Scheme assets	7.7	8.4
Return on Scheme assets greater/(less) than discount rate	47.7	(10.1)
Contributions from the sponsoring companies	2.6	4.5
Benefits paid from Scheme assets	(15.6)	(10.8)
Administrative costs paid	(1.0)	(1.0)
Closing balance	252.6	211.2

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

	Fair value of assets	
£ million	31 December 2016	26 December 2015
Structured UK equity	6.0	5.4
Overseas equity	32.9	31.0
High-yield bonds	47.1	26.3
Corporate bonds	19.4	45.6
Index-linked government bonds	118.8	63.4
Cash	13.1	21.7
Other	15.3	17.8
	252.6	211.2

Structured UK equity provides exposure to UK equities but is a derivative-based solution and not a direct investment in equities. A proportion of the Index-linked government bonds are held as collateral against the structured UK equity product.

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.

37. 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 scheme-specific funding requirements as outlined in UK legislation. The most recent scheme-specific funding valuation was at 31 March 2013 and the valuation as at 31 March 2016 is currently being carried out.

The Group and the Trustee 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 Scheme's current investment strategy adopts a policy of investing 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 22 years.

The actual amount of employer contributions expected to be paid to the Scheme during 2017 is £1.3 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 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 2016 the total contributions made in respect of this benefit were £nil (2015: £nil).

The current deficit reduction contributions were agreed between the Group and the Trustee 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 £2.0 million in the year ending 31 March 2017 and £1.0 million per annum in subsequent years until 31 March 2020. £2.6 million was paid over the year to 31 December 2016.

38. 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:

	Amounts owed from related parties		Amounts owed to related parties	
£ million	**2016**	2015	**2016**	2015
Bakkavor Group ehf	**–**	3.1	**–**	2.6

The amount owed from Bakkavor Group ehf, of £nil (2015: £3.1 million), is included within the current assets section under trade and other receivables. The amount owed to Bakkavor Group ehf, of £nil (2015: £2.6 million), is included in the current liabilities section within trade and other payables.

The amounts outstanding are unsecured. No guarantees have been given or received. The loan balances with Bakkavor Group ehf were written off in the period as part of the winding-up of Bakkavor Group ehf. The write-off of these loans has been included as an expense in other administrative costs in the income statement for the 53 weeks ended 31 December 2016.

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	**2016**	2015
Short-term employee benefits	**5.4**	5.4
Post-employment benefits	**0.1**	0.2
	5.5	5.6

39. Events after the statement of financial position date

On 23 March 2017, the Group completed a refinancing of its current debt facilities with a new £485 million corporate loan facility. The agreement comprises revolving credit facilities of £200 million maturing in June 2021, and term loans totalling £285 million, of which £210 million mature in June 2021 with the balance maturing in June 2024. The Group has used the funds from the refinancing to repay in full the existing bank debt, all outstanding Senior Secured Notes maturing in 2018 and 2020 and associated fees. This new funding structure provides the Group with a significant reduction in interest costs whilst also extending the maturity of the funding commitments.

40. Controlling party

The Company's immediate parent company and ultimate controlling party is Bakk AL Holdings Limited, a company registered in the British Virgin Islands. These financial statements are the largest consolidated group financial statements in which the Company has been included.

COMPANY INCOME STATEMENT

53 WEEKS ENDED 31 DECEMBER 2016

£ million	Notes	**53 weeks ended 31 December 2016**	52 weeks ended 26 December 2015
Continuing operations			
Other administrative costs		**(1.6)**	(0.1)
Exceptional items (net)	4	**(5.2)**	–
Royalty income		**1.2**	1.2
Operating (loss)/profit		**(5.6)**	1.1
Investment revenue	5	**36.5**	0.2
Other gains and (losses)	6	**1.1**	(3.3)
Profit/(loss) before tax		**32.0**	(2.0)
Tax	7	**(1.1)**	–
Profit/(loss) and total comprehensive income for the period		**30.9**	(2.0)

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

53 WEEKS ENDED 31 DECEMBER 2016

£ million	Share capital	Share premium	Capital reserve	Retained earnings	**Total equity**
Balance at 27 December 2014	96.8	218.3	(1.0)	2.8	**316.9**
Loss for the period	–	–	–	(2.0)	**(2.0)**
Reclassification of share premium (note 11)	–	(218.3)	–	218.3	**–**
Share buyback (note 11)	(95.6)	–	95.6	–	**–**
Dividends paid (note 11)	–	–	–	(3.4)	**(3.4)**
Balance at 26 December 2015	1.2	–	94.6	215.7	**311.5**
Profit for the period	–	–	–	30.9	**30.9**
Share buyback (note 11)	(0.2)	–	0.2	(33.8)	**(33.8)**
At 31 December 2016	1.0	–	94.8	212.8	**308.6**

COMPANY STATEMENT OF FINANCIAL POSITION

31 DECEMBER 2016

£ million	Notes	31 December 2016	26 December 2015
Non-current assets			
Investment in subsidiaries	8	**315.2**	315.2
Current assets			
Amounts due from other Group companies	12	**0.2**	3.2
Current liabilities			
Other payables		**(4.3)**	(6.7)
Amounts due to other Group companies	12	**(2.5)**	(0.2)
		(6.8)	(6.9)
Net assets		**308.6**	311.5
Equity			
Share capital	11	**1.0**	1.2
Capital reserve	11	**94.8**	94.6
Retained earnings		**212.8**	215.7
Total equity		**308.6**	311.5

The financial statements of Bakkavor Group Limited, company number 06215286, and the accompanying notes, which form an integral part of the Company financial statements, were approved by the Board of Directors on 10 April 2017. They were signed on behalf of the Board of Directors by:

A Gudmundsson
Director

COMPANY STATEMENT OF CASH FLOWS

53 WEEKS ENDED 31 DECEMBER 2016

£ million	**53 weeks ended 31 December 2016**	52 weeks ended 26 December 2015
Operating (loss)/profit	**(5.6)**	1.1
Decrease in receivables	**4.2**	2.2
(Decrease)/increase in payables	**(1.1)**	0.1
Net cash (used in)/generated from operating activities	**(2.5)**	3.4
Investing activities:		
Dividends received	**36.3**	–
Net cash generated from investing activities	**36.3**	–
Financing activities:		
Dividends paid	**–**	(3.4)
Share buyback	**(33.8)**	–
Net cash used in financing activities	**(33.8)**	(3.4)
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

53 WEEKS ENDED 31 DECEMBER 2016

1. General information

Bakkavor Group Limited (the 'Company') is a company registered in the UK. Bakkavor Group Limited is 100% owned by Bakk AL Holdings Limited, a company registered in the British Virgin Islands.

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 as 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 2 to the consolidated financial statements.

3. Employees', Directors' and audit remuneration

Fees payable to the Company's Auditor in respect of the audit of the Company's financial statements for the period ended 31 December 2016 have been borne by fellow Group company Bakkavor Foods Limited. The Company has no employees and payments to Directors for the periods ended 31 December 2016 and 26 December 2015 have been borne by fellow Group company Bakkavor Foods Limited.

4. Exceptional items

£ million	**2016**	2015
Transaction costs	**5.2**	–
	5.2	–

The £5.2 million exceptional costs relate to the fees incurred in connection with the transactions that resulted in Bakk AL Holdings Limited owning 100% of the Company and becoming the parent company of the Group.

5. Investment revenue

£ million	**2016**	2015
Interest on related party loan	**0.2**	0.2
Dividends received	**36.3**	–
	36.5	0.2

6. Other gains and (losses)

£ million	**2016**	2015
Change in fair value of other payable	**–**	(3.3)
Foreign exchange gains	**1.1**	–
	1.1	(3.3)

7. Tax

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

	2016		2015	
	£ million	**%**	£ million	%
Profit/(loss) before tax	**32.0**	**100.0**	(2.0)	(100.0)
Tax charge/(credit) at the UK corporation tax rate of 20% (2015: 20.25%)	**6.4**	**20.0**	(0.4)	(20.2)
Non-taxable income	**(7.3)**	**(22.8)**	–	–
Non-deductible expenditure	**2.0**	**6.2**	–	–
Group relief surrendered at tax rate in excess of 20% (2015: 20.25%)	**–**	**–**	0.4	20.2
Tax charge and effective tax rate for the period	**1.1**	**3.4**	–	–

8. Investments in subsidiaries

£ million	Investment in Group companies
Balance at 26 December 2015	315.2
Balance at 31 December 2016	315.2

9. Subsidiaries

As at 31 December 2016, Bakkavor Group Limited held investments in the share capital of the following companies:

Name	Place of registration and operation	Principal activity	% of voting shares
Directly held investments:			
Bakkavor Finance (1) Limited	UK	Holding company	100%
Bakkavor Finance ehf	Iceland	Holding company	100%
Indirectly held investments:			
Bakkavor Finance (2) plc	UK	Holding company	100%
Bakkavor Finance (3) Limited	UK	Holding company	100%
Bakkavor London Limited	UK	Holding company	100%
Bakkavor Estates Limited	UK	Property management	100%
Bakkavor Acquisitions (2008) Limited	UK	Holding company	100%
Bakkavor USA Inc	USA	Holding company	100%
Bakkavor USA Limited	UK	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 Invest Limited	UK	Holding company	100%
Bakkavor (Acquisitions) Limited	UK	Holding company	100%
Bakkavor Finance Limited	UK	Customer invoicing and financing of receivables	100%
Bakkavor Asia Limited	UK	Holding company	100%
Bakkavor China Limited	UK	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 Bakkavor Food Co. Limited	China	Production and manufacture of salad products	100%
Nantong Bakkavor Food Co. Limited	China	Production and manufacture of salad products	100%
Bakkavor China Holdings Limited	Hong Kong	Holding company	100%
Wuhan Bakkavor Food Co. Limited	China	Production and manufacture of salad products	100%
Shanghai Bakkavor Food Co. Limited	China	Production and manufacture of salad products	100%
Beijing Bakkavor Food Co. Limited	China	Production and manufacture of salad products	100%
Guangzhou Bakkavor Food Co. Limited	China	Production and manufacture of salad products	100%
Bakkavor (Shanghai) Management Co. Limited	China	Holding company	100%
Xianyang Bakkavor Food Co. Limited	China	Production and manufacture of salad products	100%
Fujian Bakkavor Food Co. Limited	China	Production and manufacture of salad products	100%
Bakkavor Hong Kong Limited	Hong Kong	Preparation and marketing of fresh prepared foods	100%
Bakkavor Limited	UK	Holding company	100%
Bakkavor (Jersey) Limited	Jersey	Dormant holding company	100%
Bakkavor (Jersey Two) Limited	Jersey	Dormant holding company	100%
Bakkavor Properties Limited	UK	Non-trading	100%
Geest Corporation Inc	USA	Dormant holding company	100%
Bakkavor Overseas Holdings Limited	UK	Non-trading	100%
BV Foodservice Limited	UK	Non-trading	100%
Bakkavor Foods Limited	UK	Preparation and marketing of fresh prepared foods	100%
Bakkavor Pension Trustees Limited	UK	Pension trustee holding company	100%
Bakkavor European Marketing BV	Netherlands	Holding company	100%

9. Subsidiaries (continued)

Name	Place of registration and operation	Principal activity	% of voting shares
NV Bakkavor Belgium BV	Belgium	Non-trading	100%
Bakkavor Fresh Cook Limited	UK	Preparation and marketing of fresh prepared foods	100%
Anglia Crown Limited	UK	Preparation and marketing of fresh prepared foods	100%
English Village Salads Limited	UK	Non-trading	100%
Bakkavor Australia Pty Limited	Australia	Holding company	100%
BV Restaurant Group Limited	UK	Production and distribution of fresh prepared foods	100%
Bakkavor Iberica S.L.U.	Spain	Distribution	100%
Bakkavor Central Finance Limited	UK	Customer invoicing and financing of receivables	100%
Notsallow 256 Limited	UK	Dormant non-trading company	100%
Kent Salads Limited	UK	Dormant non-trading company	100%
Laurens Patisseries Limited	UK	Dormant non-trading company	100%
Hitchen Foods Limited	UK	Dormant non-trading company	100%
Bakkavor Brothers Limited	UK	Dormant non-trading company	100%
Cucina Sano Limited	UK	Dormant non-trading company	100%
Butterdean Products Limited	UK	Dormant non-trading company	100%
Exotic Farm Prepared Limited	UK	Dormant non-trading company	100%
Exotic Farm Produce Limited	UK	Dormant non-trading company	100%
Bakkavor Maroc	Morocco	Dormant non-trading company	100%

10. Financial instruments

Foreign currency risk

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

Interest rate risk management

The Company has provided for the £3.0 million (2015: £3.0 million) of fixed 7.0% Senior Unsecured Notes due in 2022 issued by another Group company, as they are unlikely to be paid. There are no further interest-bearing balances and therefore the Company is not exposed to any interest rate risk.

Categories of financial instruments

£ million	**31 December 2016**	26 December 2015
Financial assets		
Loans and receivables at amortised cost:		
Amounts due from other Group companies	**0.2**	3.2
	0.2	3.2

£ million	**31 December 2016**	26 December 2015
Financial liabilities		
Fair value through profit and loss:		
Other payables	**4.3**	4.3
Other financial liabilities at amortised cost:		
Other payables	**–**	2.4
Amounts due to other Group companies	**2.5**	0.2
	6.8	6.9

11. Share capital

	31 December 2016		26 December 2015	
	Number	**£ million**	Number	£ million
Issued and fully paid:				
Ordinary shares of £0.01 each	**104,774,006**	**1.0**	117,279,611	1.2

On 5 April 2016, the Company received an interim cash dividend of £36,250,000 from its subsidiary undertaking, Bakkavor Finance (1) Limited. £33,822,000 of the dividend was used to finance the buyback of 12,505,605 of the Ordinary shares of £0.01 each in the Company on 16 November 2016 as required under the terms of the transaction of 25 January 2016 that resulted in Bakk AL Holdings Limited becoming the parent undertaking of the Company. Following the buyback Bakk AL Holdings Limited owns 100% of the Ordinary shares of the Company.

On 28 April 2015, the Company agreed to a buyback of 96,647,644 deferred shares of £0.99 each for a total consideration of £1, which resulted in a credit of £95.6 million to the capital reserve.

On 11 May 2015, Bakkavor Group Limited declared an interim dividend for the period ended 26 December 2015 of 2.90p per share to each of the Ordinary shareholders totalling £3,400,000, which was paid on 21 May 2015. No dividends have been declared in the period ended 31 December 2016.

Share premium

In April 2015, a resolution was passed to cancel the whole of the Group's share premium account of £218,350,092, as part of a capital reduction proposal which increased the distributable reserves of the Group.

Capital reserve

Following the buyback on 16 November 2016, £0.2 million was credited to the capital reserve. In 2015, £95.6 million was credited following the buyback of the deferred shares as noted above.

In 2012, Bakkavor Group Limited assumed responsibility for the ultimate settlement of a disputed liability to Kaupthing Bank on behalf of Bakkavor Group ehf, in relation to an interest swap arrangement, and in that respect 1,554,310 Ordinary shares of £0.01 each in the capital of the Company have been provisionally allotted. The fair value of these shares as at the date of the agreement was determined to be £1.0 million. As a result of this transaction a debit of £1.0 million was recorded in reserves with a liability of £1.0 million recognised in trade and other payables. The liability is required to be held at fair value and at 31 December 2016 this value amounted to £4.3 million (2015: £4.3 million).

12. Related party transactions

Transactions

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

£ million	Royalty income		Amounts owed by related parties		Amounts owed to related parties	
	2016	2015	**2016**	2015	**2016**	2015
Group companies	**1.2**	1.2	**0.2**	0.2	**2.5**	0.2
Bakkavor Finance ehf	**–**	–	**–**	3.0	**–**	–
Bakkavor Group ehf	**–**	–	**–**	–	**–**	2.4

Amounts owed to related parties consists of a £1.4 million corporate loan (2015: £nil) owed to Bakkavor Finance (2) plc, £1.1 million (2015: £nil) owed to Bakkavor Finance (3) Limited in respect of Group tax relief and £nil (2015: £2.4 million) owed to Bakkavor Group ehf. During the 53-week period ended 31 December 2016, £1.2 million (2015: £3.4 million) of royalty charges, including accrued royalty charges, were paid by Bakkavor Finance (2) plc to Bakkavor Group Limited.

Amounts owed by related parties consist of £0.2 million corporate loan (2015: £0.2 million payable) owed by Bakkavor Foods Limited and £nil (2015: £0.2 million) owed by Bakkavor Finance (2) plc. During the period the £3.0 million of Senior Unsecured Notes issued to the Company by Bakkavor Finance ehf have been written down to £nil as Bakkavor Finance ehf has insufficient funds to repay the Notes.

These amounts are unsecured and will be settled in cash. No guarantees have been given or received.

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

NOTES TO THE COMPANY FINANCIAL STATEMENTS

CONTINUED

13. Events after the statement of financial position date

On 23 March 2017, the Group completed a refinancing of its current debt facilities with a new £485 million corporate loan facility. The agreement comprises revolving credit facilities of £200 million maturing in June 2021, and term loans totalling £285 million, of which £210 million mature in June 2021 with the balance maturing in June 2024. The Group has used the funds from the refinancing to repay in full the existing bank debt, all outstanding Senior Secured Notes maturing in 2018 and 2020 and associated fees. This new funding structure provides the Group with a significant reduction in interest costs whilst also extending the maturity of the funding commitments.

14. Controlling party

The Company's immediate parent company and ultimate controlling party is Bakk AL Holdings Limited, a company registered in the British Virgin Islands. These financial statements are the largest consolidated group financial statements in which the Company has been included.

COMPANY INFORMATION

DIRECTORS

A Gudmundsson
L Gudmundsson
T Krasnow (appointed 22 January 2016)
R Q Berlin (appointed 22 January 2016)
B Bjarnason (resigned 22 January 2016)
H Lúðvígsson (resigned 22 January 2016)
G Sigurdsson (resigned 22 January 2016)
S P Burke (appointed 1 February 2017)
D M D Hennequin (appointed 1 February 2017)

SECRETARY

S Witham

REGISTERED OFFICE

Fitzroy Place 5th Floor
8 Mortimer Street
London
W1T 3JJ

BANKERS

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

AUDITOR

Deloitte LLP
2 New Street Square
London
EC4A 3BZ