BAKKAVOR GROUP PLC
ANNUAL REPORT AND ACCOUNTS 2017

# WE ARE BAKKAVOR

# CONTENTS



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# 2017 HIGHLIGHTS

A year of good progress with solid foundations for future growth.

**GROUP REVENUE**

**£1,814.8m** (2016: £1,763.6m)

**+4.6%[1] +2.9%**

**LIKE-FOR-LIKE REVENUE[2]**

**£1,800.3m** (2016: £1,708.5m)

**+5.4%**

**ADJUSTED EBITDA[2]**

**£152.6m** (2016: £146.4m)

**+4.2%**

**OPERATING PROFIT**

**£96.2m** (2016: £91.5m)

**+5.1%**

**NET DEBT**

**£266.6m** (2016: £366.9m)

**-£100.3m**

1 Growth versus Full Year 2016 on a 52 week basis.
2 Alternative Performance Measures ("APMs"), including 'like-for-like', 'adjusted' and 'underlying' are used as a guide to performance. The definitions and calculations for APMs are set out in Note 41 of the Notes to the Consolidated Financial Statements.

Note: Throughout the Annual Report, all comparative amounts are presented for the 53 week period ended 31 December 2016 unless otherwise stated.

**MATERIALITY**

Bakkavor's Annual Report 2017 aims to provide a fair, balanced and understandable assessment of our business model, strategy, performance and prospects in relation to material financial, economic, social, environmental and governance issues.

The material focus areas in the year were the Bakkavor Group Initial Public Offering ("IPO") and related governance processes, including the introduction of a formal Risk Register and the Bakkavor Code of Conduct.

Disclaimer — Forward-looking statements

This Annual Report, prepared by Bakkavor Group plc ("the Company"), may contain forward-looking statements about Bakkavor Group plc and its subsidiaries ("the Group"). Forward-looking statements involve uncertainties because they relate to events, and depend on circumstances, that will, or may, occur in the future. If the assumptions on which the Group bases its forward-looking statements change, actual results may differ from those expressed in such statements. Forward-looking statements speak only as of the date they are made and the Company undertakes no obligation to update these forward-looking statements. Nothing in this report should be construed as a profit forecast. Some numbers and period on period percentages in this report have been rounded or adjusted in order to ensure consistency with the financial information.

WE ARE THE LEADING PROVIDER OF FRESH PREPARED FOOD IN THE UK WITH A GROWING INTERNATIONAL PRESENCE IN THE US AND CHINA.

WE HAVE A CLEAR STRATEGY, A STRONG MARKET POSITION AND CLOSE STRATEGIC PARTNERSHIPS WITH OUR CUSTOMERS.

WE ARE DRIVEN BY OUR INSIGHT AND ABILITY TO INNOVATE, CONSISTENTLY DELIVERING HIGH-QUALITY PRODUCTS TO MEET EVOLVING CONSUMER NEEDS.

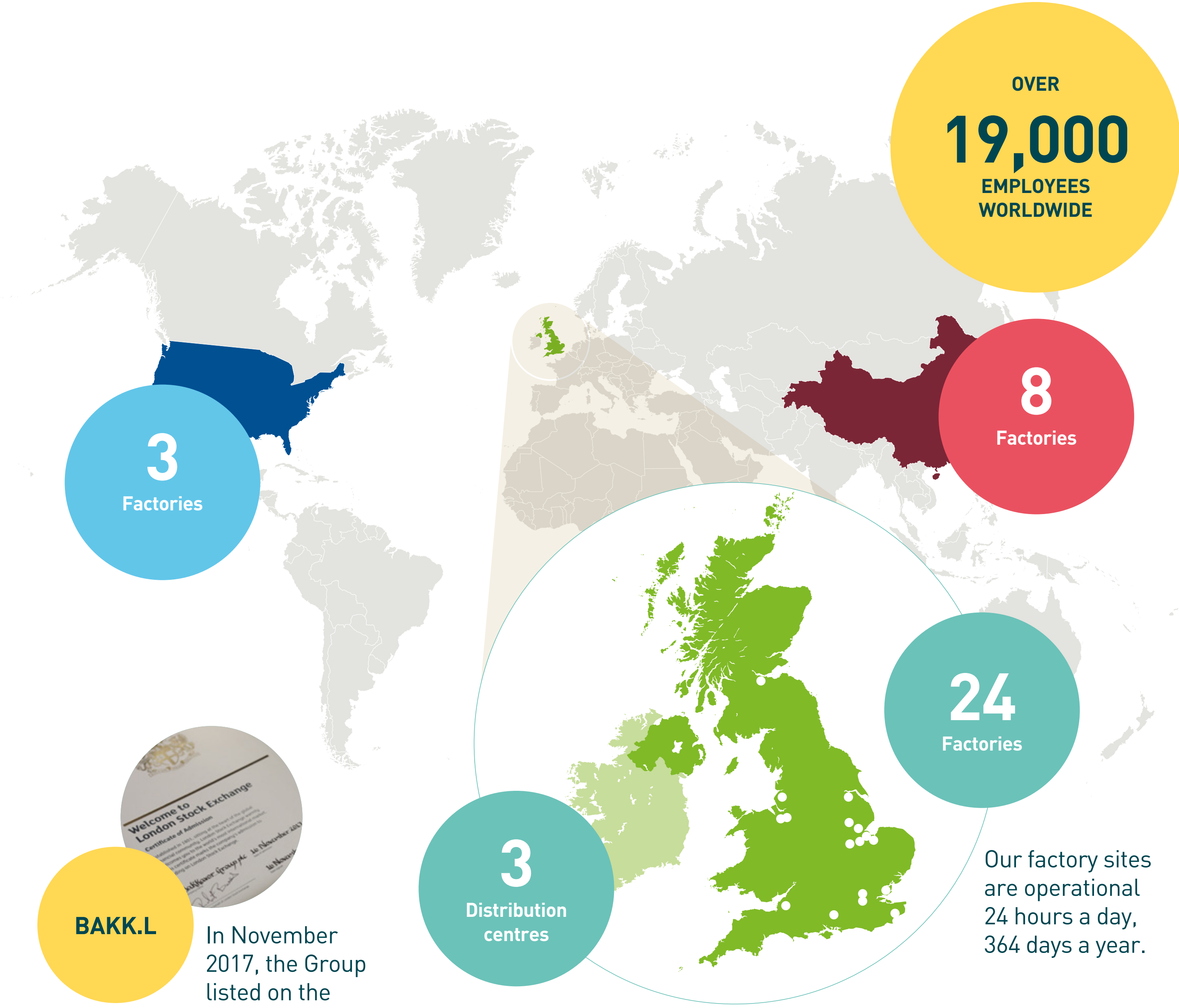
WE ARE

# BAKKAVOR

## AT A GLANCE

# BAKKAVOR IS THE LEADING PROVIDER OF FRESH PREPARED FOOD IN THE UK, WITH A FAST-DEVELOPING INTERNATIONAL PRESENCE IN THE US AND CHINA

We employ over 19,000 people and operate from 39 locations, including 24 factories, three distribution centres and our head office in the United Kingdom ("UK"), three factories in the United States ("US") and eight factories in China. In addition, we have two factories under construction in the US and a further two in China.




Our factory sites are operational 24 hours a day, 364 days a year.

In November 2017, the Group listed on the London Stock Exchange.

# WE CREATE FRESH PREPARED FOOD IN PARTNERSHIP WITH OUR LEADING RETAIL AND FOODSERVICE CUSTOMERS ACROSS THE WORLD

Our deep understanding of consumer food choices enables us to create innovative products that set us apart from our competitors. In the UK, we develop products across the four categories that make up the fresh prepared food ("FPF") market:

**Meals**

**Salads**

**Desserts**

**Pizza & Bread**

We won a number of awards in the year including Innovation winner for the Prepared Salads Category and Innovative Product of the Year at the Grocer Own Label Food & Drink Awards 2017, as judged by The Grocer magazine and industry representatives.

Portfolio of **2,000** products in the UK

Created over **500** new products in the UK

**OUR CUSTOMERS**

Our UK customers include all the well-known grocery retailers.

Our international customers include some of the world's best-known brands.

# OUR VISION IS TO LEAD THE WAY IN BRINGING GREAT TASTING FRESH PREPARED FOOD TO PEOPLE AROUND THE WORLD

## OUR PURPOSE

Our purpose is to develop and produce innovative, commercially successful food that offers choice, quality, convenience and freshness.

Our vision and purpose are underpinned by a strong set of values that describe what we stand for and how we behave with our customers, suppliers, investors, in the communities in which we operate, and with each other.

## OUR VALUES

**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 that we do.

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

## A SUSTAINABLE BUSINESS

We operate a responsible and sustainable business model which is integral to everything we do.

### A culture of safety

Safety is core to our vision and values and is integral to the way we work. This includes food safety and integrity, making sure our products meet all legal and customer standards as well as ensuring the health and safety of all our people. We have a strong Board-led process of safety management in place.

### Customer care and engagement

We are proud of the relationships we have with our customers, working in partnership to develop new products together. We meet regularly to discuss global food and consumer trends, share innovative ideas and to taste-test potential new recipes. We always challenge ourselves to deliver customer excellence and we respect our customers' brand values as though they were our own.

### An employer of choice

We aim to position Bakkavor as an employer of choice, providing a secure, enjoyable and motivational working environment for all our people. We measure our success through our employee engagement survey and the ability to retain our people, as well as through our robust approach to workplace safety.

# ONE OF THE LARGEST INTERNATIONAL FOOD MANUFACTURERS IN A DYNAMIC AND FAST-MOVING SECTOR

## BUSINESS ACTIVITIES

Bakkavor is the leading provider of FPF in the UK and has a growing international presence in the US and China. Our 19,000 employees operate from 39 locations, including 24 factory sites, three distribution centres and a head office in the UK, three factories in the US and eight in China, to develop and produce innovative fresh prepared food for a wide variety of occasions and budgets.

In the UK and the US, the Group works with leading grocery retailers, focusing on their own label brands, to support them in differentiating their product offering. In China, the Group supplies international and local foodservice operators.

In partnership with its customers, Bakkavor has led the way in developing the fresh prepared food market in the UK, one of the largest and most dynamic fresh prepared food markets in the world.

The Group has used this expertise to grow and develop its presence in the US and China, with both these markets showing strong growth in the high-quality, fresh, convenience food sector.

Bakkavor's proven business model, combined with the Group's extensive insight into consumer trends and its ability to turn this insight into creative commercial product offerings, gives the Company a clear competitive advantage in this growing market.

The Group reports its business performance under two segments: United Kingdom and International.

### UK

Bakkavor employs approximately 17,000 people in the UK and is the number one producer by market share in each of the four UK FPF categories: meals; salads; desserts; and pizza & bread.

Customers include all the well-known UK grocery retailers, who sell Bakkavor products under their respective brands.

In 2017, over 500 new products were developed in the UK in conjunction with customers.

We operate a complex operating model and sites are operational 24 hours a day, 364 days a year. Given the short shelf-life of products, sites receive orders 'on-the-day, for-the-day.' In order to fulfil orders on time and in full, labour and materials are ordered in advance which requires a skilled planning process.

Bakkavor's success in this area is evidenced by more than 99% of orders being completed on time, ahead of the industry benchmark of 98.5%.

#### Strategic positioning

- Operating in attractive markets
- Leadership position across all four product categories
- Strong insight, innovation and new product development focus
- Expanding customer base

### International

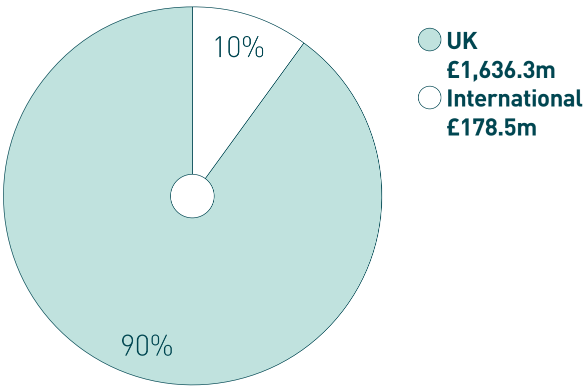
The International business comprises the FPF market in the US and the international and local foodservice market in China. Bakkavor employs over 550 people in the US and around 1,600 in China, having operated in both countries for over 10 years.

The Group believes it is well-placed to influence and develop these markets, leveraging its UK expertise. Both markets have demonstrated a growing demand for fresh, high-quality, healthy and convenient food options.

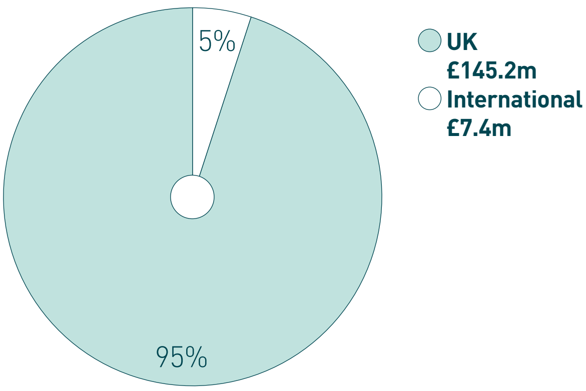
#### Strategic positioning

- Strong understanding of markets and long established presence
- Leverage UK expertise and insight for competitive advantage
- Significant opportunities for growth
- Increased purchasing power for raw materials

**Group revenue**




**Adjusted EBITDA[2]**

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# CHAIRMAN'S LETTER

## A YEAR OF GOOD PROGRESS, WITH SOLID FOUNDATIONS FOR FUTURE GROWTH

I am delighted to report, in our first set of results as a public company, a year of good progress in line with our plans.

Group revenue from continuing operations increased by 4.6%[1] to £1,814.8 million, adjusted EBITDA[2] increased by 4.2% to £152.6 million and operating profit increased by 5.1% to £96.2 million.

In the UK, our business is based on strong, long-term customer relationships and this has helped us to manage the impact of inflation which, together with good volumes, has resulted in revenue growth of 4.6%[1]. Innovation is at the heart of these relationships and during the year we launched over 500 new products for our customers, such as the UK's first ever range of charcoal-base pizzas to create further differentiation in the market.

Our International business is much smaller, but growing in line with our plans. We have seen this particularly in China, where our customers are expanding rapidly and extending their fresh offering. In the US, we are steadily pushing out our boundaries, both geographically and in terms of range, as the market develops its taste for fresh prepared products. The new dedicated factory to service a significant customer in Texas is on track and expected to be operational in the second half of 2018.

Although we continue our investment in both new facilities and the upgrade of existing factories, cash generation in the year was strong, and this, combined with the benefits from the March refinancing and the listing proceeds received, resulted in net debt being just 1.8 times adjusted EBITDA[2] at the end of December.

Looking ahead, whilst we see the widely reported risks to the UK economy from inflation and some general uncertainty around the Brexit process, we believe that Bakkavor is well-placed for continuing profitable growth in a segment of the food market which is still showing strong dynamics. We continue to take a long-term perspective of our business and any passing turbulence will not deflect us from the strategy we are working to. Growth prospects in our international markets remain very positive and we will capitalise on these in the coming years.

We are very proud to have become a listed company in November and I would like to welcome the many new shareholders who have joined us at that time and since.

In October 2017, I succeeded Lydur Gudmundsson as Chairman. Lydur is the co-founder of Bakkavor and, along with Agust, takes credit for building the business into what it is today. His experience and knowledge remain invaluable to us and I am delighted that he will continue to be part of the Group Board. Meanwhile I welcome Sue Clark, who joined us in November, and I am also delighted that Denis Hennequin has become our Senior Independent Director. Jane Lodge also joined us as an Independent Non-executive Director on 3 April 2018 and I welcome her too.

Bakkavor employs more than 19,000 people across the Group, including 17,000 in the UK. They all work at the highest standards to make great tasting food consistently and safely. Many are potentially impacted by the Brexit process and we have been working to support them at a time of significant personal uncertainty. I would like to thank them for their contribution, on which these results have been built.

As set out in the public listing prospectus, no dividend will be declared in respect of the 2017 financial year. The Group has confirmed its intention that a dividend equivalent to 40% of adjusted profit after tax for the financial year 2018 will be paid, with an interim payment in September 2018 of approximately one third of the expected total for the year.

**Simon Burke**
Non-executive
Independent Chairman

9 April 2018

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# WE ARE EXPERTS

In 2017, we supplied over 30 different products using beetroot to our customers in the UK, including a vibrant beetroot and mint dip.

**We have been a fresh prepared food pioneer for decades, harnessing our expertise in chilled manufacturing and fresh produce to successfully create high-quality products that continually meet consumers' ever-evolving tastes and demands.**

It is our 'farm to fork' expertise, our ability to operate at scale and our focus on outstanding customer service that have ensured our clear leadership in the UK FPF market. Translating and applying these strengths to our international markets is enabling us to exploit further opportunities for growth.

SEE HOW IT'S MADE
**blog.bakkavor.com**

# A PROVEN MODEL FOR COMPETITIVE ADVANTAGE

Consumers are at the heart of what we do: our deep understanding of the food choices they make enables us to create and make innovative products for our customers that set us apart from our competitors.

Focusing on customer service and continuously creating and making food that is commercially viable and meets consumer demand is what drives our business and what creates value for our stakeholders.

## WHAT DIFFERENTIATES US

We have a number of strengths which, combined with a confidence in market fundamentals and demand for fresh prepared food, help differentiate us in the industry:

- Clear leadership in the attractive UK FPF market and across product categories
- Proven operating model of managing complexity and ability to manufacture short shelf-life products at scale
- Strong and long-standing customer relationships in all our markets
- Ability to generate customer and consumer specific insights to drive innovation
- Track record of, and investment in, food safety
- Strong financial profile and sustainable track record for organic growth

## OUR STAKEHOLDERS

We engage with our stakeholders through:

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

# HOW WE CREATE VALUE

## INSIGHT AND INNOVATION

We use insights gained through our investment and analysis of consumer research and data, as well as our knowledge of food trends sourced from around the world, to gain a good understanding of what consumers want.

Our teams of chefs and product development experts continuously create and test recipes and work collaboratively with our commercial and marketing teams to ensure products can be produced which taste great, are commercially viable and reinforce our market-leading positions.

## DEDICATED TEAMS AND PLANS

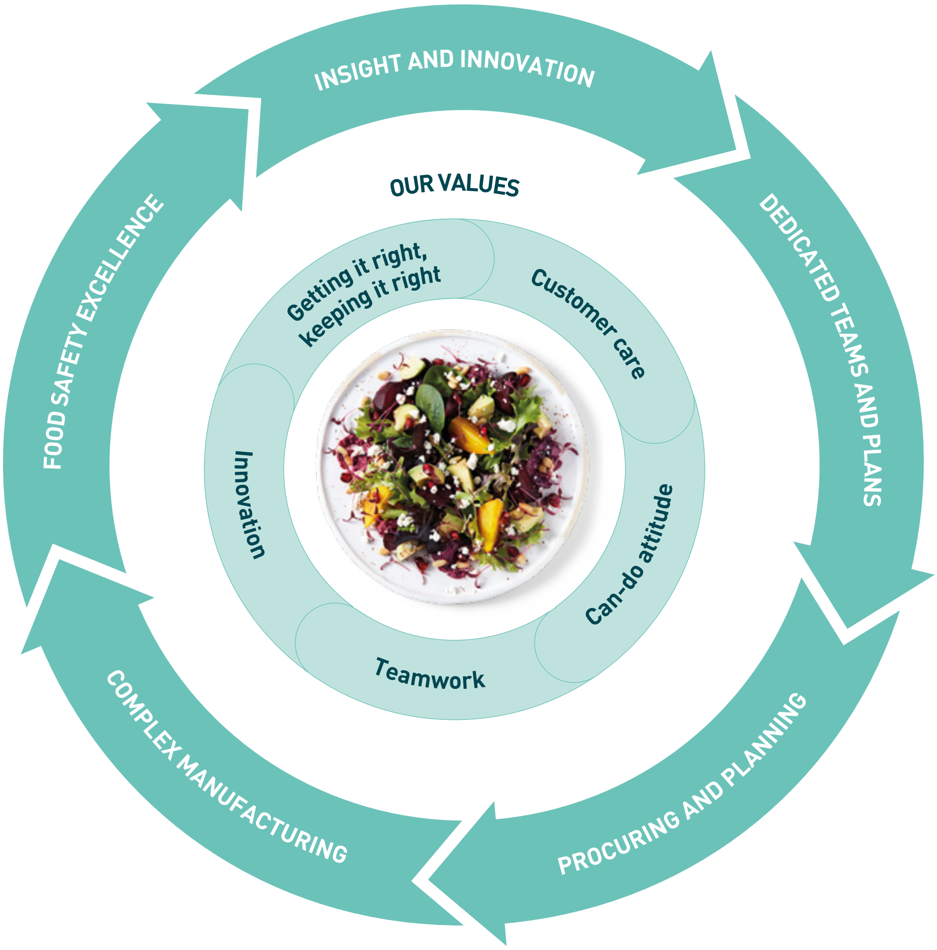
We recognise that our relationships with customers and the service we provide is key to our success.

As a specialist in private label food, we are committed to protecting and developing our customers' brands as though they are our own.

We have dedicated teams, each with differentiated plans, to take care of our strategic customers and to ensure that we meet their exacting standards.

**OUR PURPOSE**

is to develop and produce innovative, commercially successful food that offers choice, quality, convenience and freshness




## PROCURING AND PLANNING

Our procurement teams work with selected growers and suppliers to source raw materials in the right quantities at the right price. They buy from over 50 countries with no single supplier accounting for more than 3% of orders.

Our planning experts ensure we can meet the daily orders of our customers by analysing product demand and planning production accordingly. As well as raw material planning, this also involves efficient staff planning and a mix of both permanent employees and agency workers to meet seasonal demand.

## COMPLEX MANUFACTURING

Our factories are operational 24/7, 364 days a year, providing over 2,000 different short shelf-life products to customers every day.

We operate a 'just-in-time' model, using fresh raw materials to produce only what is required to meet our daily orders and we have a proven ability to deliver high-quality products to customers.

Essential to the success of our 'just-in-time' model is our logistics expertise in managing our inbound and outbound supply chain. Raw materials are supplied to our factories and finished products are delivered on time through our distribution centres into customers' depots.

## FOOD SAFETY EXCELLENCE

We manufacture food that is not only great tasting for consumers, but also meets the highest standards of safety.

Sites are audited regularly, often on an unannounced basis, by internal food safety experts, customers and independent bodies for compliance with food safety standards.

We employ more than 500 food safety professionals and conduct over 2,000 in-house microbiology and chemistry tests every day.

## MARKET OVERVIEW

# WE OCCUPY A LEADING POSITION IN A GROWING MARKET

Bakkavor operates in the fresh prepared food market. In the UK and the US, Bakkavor serves grocery retailers and focuses primarily on supporting these retailers to differentiate their own brands. In China, the Group mainly focuses on serving international and local foodservice operators.

Whilst the Group operates in three very different geographical markets, the overarching trends that drive demand in these markets are shared. It is our ability to anticipate and translate these trends into commercially successful products that helps drive our performance and long-term growth.

Consumers are changing the way they shop for food, looking for convenient products and solutions that meet specific occasions or needs to support their lifestyle.

Trends such as the rise in single person households and fewer shared meal occasions have driven a shift towards convenience as shoppers buy fewer single ingredients to make their own meals.

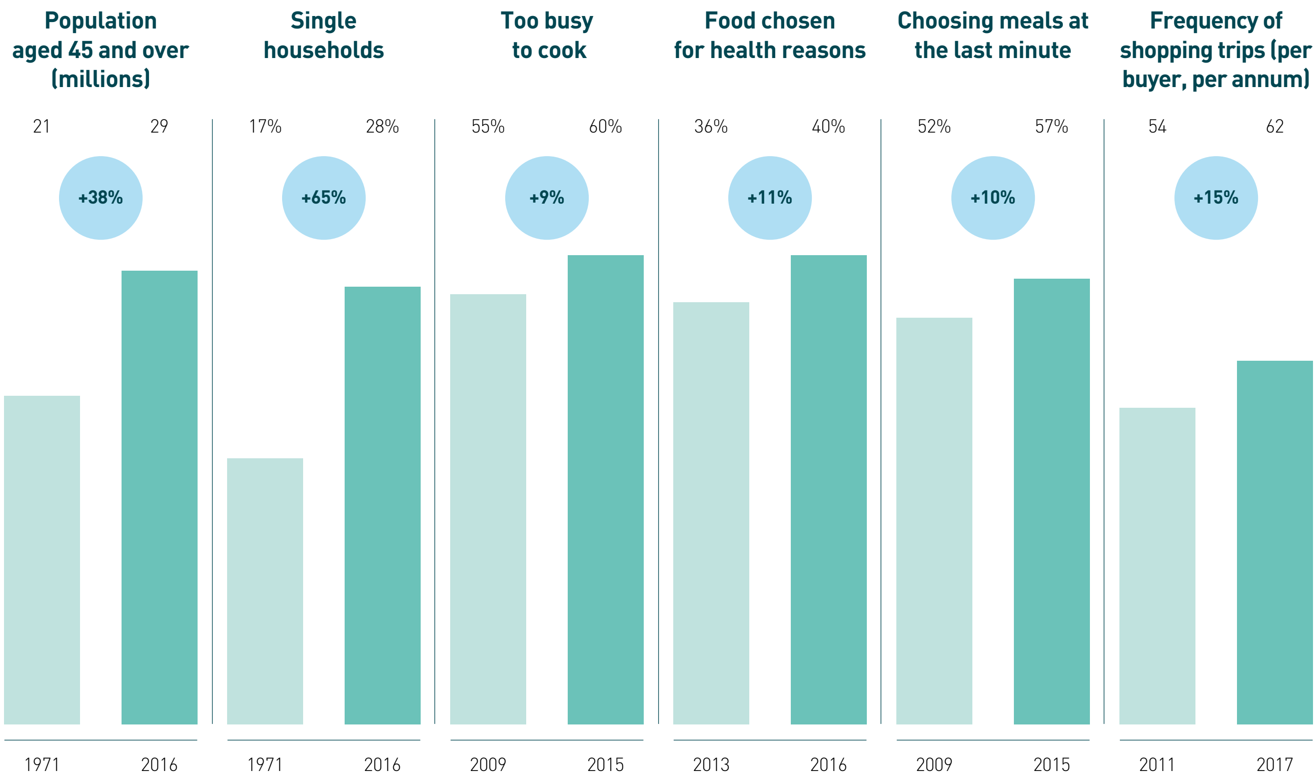
Fresh prepared food has proven popular with the over-45s who have grown accustomed to the convenience it offers and, as life expectancy increases, demand for these types of products is set to continue.

The amount of time spent cooking has approximately halved in the last 30 years, with people opting to make quick, quality meals to fit around their busy lifestyles.

Consumer tastes are changing, with an increased desire for healthy, fresh and nutritious products and snacks that are hard to replicate at home and expensive to make from scratch. Demand for more of this type of food can be seen through increased health-focused ranges such as low calorie, vegan, high protein and gluten-free or free-from products or meals.

In addition, the frequency of shopping trips has increased, with more individuals choosing meals at the last minute, impulse buying and trying new products. Major grocery retailers have responded through further investment in the convenience store format, increasing their commitment to fresh prepared food and using the category to differentiate their own brands. In addition, consumers are increasingly confident about ordering fresh prepared food online, which is further supported through delivery options such as 'click and collect'.

### THE LONG-TERM TRENDS DRIVING THE UK FRESH PREPARED FOOD MARKET




† OC&C Strategy Consultants' analysis of multiple sources.

# WE ARE FRESH

"We have worked with Bakkavor for 22 years and have a long history of growing and developing together."

**Carlo Boscolo, Cultiva**

**We specialise in fresh prepared food which, by its nature, involves sourcing many types of fresh fruit and vegetables in the creation of thousands of different recipes.**

For instance, we use around 80 different salad leaves and herbs such as wild rocket, baby spinach and flat leaf parsley, and over 100 different vegetables from Charlotte potatoes to Chantenay carrots.

Our ability to source the best ingredients originates from our fresh produce heritage, a partnership approach with our growers and having our own agronomy and procurement experts who ensure we have a consistent, high-quality supply.

SEE HOW IT'S MADE

**blog.bakkavor.com**

## OUR STRATEGY

# DELIVERING LONG-TERM SUSTAINABLE GROWTH

The Group's core strategy of delivering long-term sustainable growth is focused on developing its businesses in the UK and internationally, while continuing to improve operational efficiency.

This strategy is underpinned by a continued focus on customer needs and service, selective partnerships and strong financial disciplines.

### 1. LEVERAGING NUMBER ONE POSITION† IN THE UK

Bakkavor's strategy in the UK is to leverage its number one position in the fast-growing FPF market.

Our strategy centres on the following key areas:

- Strengthening partnership arrangements with existing customers
- Exploiting insight, innovation and breadth of capability
- Pursuing strategic investments to accelerate growth

We seek to deliver these strategic priorities and enhance our number one position through our dedicated customer teams, our commitment to operational excellence and our ongoing capital investment programme.

### STRATEGY IN ACTION

Bakkavor has long-standing relationships of over 30 years with its four largest customers. During the year, we continued to develop these relationships with several significant business wins, commercial launches delivered to plan and category innovation that builds the pipeline for 2018.

2017 was a particularly successful year for innovating our offering and broadening our categories. We have seen good volume growth within our core business, working with customers on product and packaging innovation to create further differentiation in this market.

Our ongoing investment programme of around £50 million per annum ensures we have capacity in place for medium-term growth across all categories. However, expected demand in our desserts business requires more substantial expansion. To address this, the Group has approved a multi-million pound investment in its Newark desserts site. The investment will add capacity across desserts and also provide market-leading innovation capabilities.

### STRATEGIC PRIORITIES FOR 2018

We continuously invest in new insights through our dedicated team, which is hugely valuable in evaluating evolving consumer trends. We have already seen growth in such areas as gluten-free products, which have delivered incremental sales and, in the coming year, we will be developing further our 'free-from' proposition, capitalising on these trends where we identify long-term potential.

We continue to closely monitor developments in the wider market, responding to changes in category dynamics. As previously mentioned, in response to ongoing consolidation in the desserts category, we are making a material investment in our desserts business, which will come online during 2018 and provide the necessary additional capacity to support our growth plans.

### 2. ACCELERATING GROWTH IN HIGH-POTENTIAL INTERNATIONAL MARKETS

Bakkavor has developed a strong presence in the attractive markets of the US and China, where the Group has operated for over 10 years. Our international strategy will leverage our expertise in the UK to further support the strong foundations now in place.

To accelerate growth internationally, we are focused on:

- Developing strong customer partnerships
- Establishing leading positions in key categories with a view to achieving nationwide supply

### STRATEGY IN ACTION

In our International markets of the US and China, we benefited from strong market growth as the uptake of fresh prepared food continued to accelerate. We remain active in strengthening and developing partnerships with retailers and food service operators in our key categories.

In the US, the Group focused on developing its positions in attractive key categories — dips, soups and sauces and ready meals. We continue to see growth in these categories and will invest to further enhance capacity and capability.

† OC&C Strategy Consultants' analysis of multiple sources.

In addition, in the US, we extended our relationship with a customer beyond our existing partnership with one of its subsidiaries, and as a result, we are now producing ready meals for a second major subsidiary.

Bakkavor has also partnered with a significant new US customer, and as a sign of the strength of the relationship, we are currently investing circa $31 million in a new facility in San Antonio, Texas, to support the large scale roll-out of fresh prepared food to its stores in Texas.

In China, we have benefited from the rapid rate at which our customers are expanding their store and restaurant portfolios. We continue to invest in these partnerships and support their plans for growth through increasing our capacity and extending our geographic reach.

We continue to focus on the foodservice market and will also seek further opportunities in the retail convenience sector. For example, we have initiated trials for replicating the successful fresh soups business that has been established in both the UK and the US. In China, we also continued to test the convenience market with our 'Fresh Kitchen' range of prepared meals where initial consumer response has been very positive.

Alongside these developments, we remain committed to investing in our infrastructure to build strong platforms for growth and have expanded our teams in the areas of marketing, insights, technical, HR and finance, which increased our costs for the year, and positions us well for the future.

### STRATEGIC PRIORITIES FOR 2018

Our continued international growth rests on our ability to keep pace with our existing customers' growing requirements. To that end, we are making large scale investments in capacity in both the US and China, much of which will come online during 2018.

In the US, a key focus is the development of our close partnership with a significant customer, including the opening of the new dedicated facility, expected in the second half of 2018. In China, we will be completing the construction of a state-of-the-art factory, located just outside Shanghai in Haimen, giving us increased capacity to access the affluent east of the country. This facility is also due to open later in 2018.

We are also expanding our category presence internationally, bringing our expertise in chilled bread to both markets in 2018 with the opening of new bakeries. As always, we will embed dedicated resource from our UK operations as additional support to ensure successful launches within this new category.

## 3. IMPROVING OPERATIONAL EFFICIENCY

Bakkavor continues to invest in operational efficiencies across the Group to support its strategy. These investments are underpinned by Bakkavor's operational finance team, created by bringing some of the Group's manufacturing and finance leaders together to work across the Group as a whole.

### STRATEGY IN ACTION

The operational finance team uses benchmarking, knowledge of cross-business activity and shared improvement projects to identify instances of operational excellence that can be replicated elsewhere within the business.

This team is also instrumental in evaluating and prioritising the Group's productivity improvement plans. We have improved our operating efficiency with selected investments, including in the areas of leaf processing and packaging automation. In many cases, we see scope to roll these initiatives out across multiple sites, in support of our long-term pursuit of margin improvement.

### STRATEGIC PRIORITIES FOR 2018

We have set ourselves the goal of delivering further EBITDA margin improvement over the medium-term, which we expect to achieve by means of continued intervention in areas of underperformance, and improvement where we believe that we can do things more efficiently. In the coming year, we expect to identify further opportunities for efficiency gains, and will continue to invest accordingly. We will also extend the implementation of performance improvements we have already made in specific sites where there is scope to do so.

# CHIEF EXECUTIVE'S REVIEW

## DELIVERING THE BEST FOR OUR PEOPLE AND OUR CUSTOMERS IS THE CORNERSTONE OF OUR FUTURE SUCCESS

This has been an historic year, culminating with November's admission to the premium segment of the London Stock Exchange, which saw us welcome our new shareholders to the Company.

My brother Lydur and I founded Bakkavor over 30 years ago and it is now a business which employs around 19,000 people across 39 sites in the UK, US and China and, this year, generated revenue of over £1.8 billion.

### A YEAR OF GOOD PROGRESS

I am pleased to report that the past twelve months have seen us leverage our scale, innovation credentials and passion for food to make further good progress across the Group.

**Group financial highlights**

| £ million | 2017 | 2016 (53 weeks) | Change |
|---|---|---|---|
| Revenue | **1,814.8** | 1,763.6 | 4.6%[1]/ 2.9% |
| Revenue: Like-for-like[2] | **1,800.3** | 1,708.5 | 5.4% |
| Adjusted EBITDA[2] | **152.6** | 146.4 | 4.2% |
| Adjusted EBITDA[2] margin | **8.4%** | 8.3% | 10bps |

Revenue from continuing operations increased by 4.6%[1] from £1,735.4 million (2016: 52 weeks) to £1,814.8 million in 2017. Like-for-like revenue[2] from continuing operations grew by 5.4% from £1,708.5 million to £1,800.3 million in 2017. Adjusted EBITDA[2] increased by 4.2%, from £146.4 million to £152.6 million in 2017. Operating profit increased by 5.1% from £91.5 million to £96.2 million in 2017. This was a good performance given the unprecedented inflationary pressures seen in the year.

In the UK, we worked closely with our key customers to mitigate much of the impact of raw material inflation and the increase in labour costs, with our strong focus on efficiencies and cost control. Internationally, we saw further growth, particularly in China, as both businesses benefited from the transfer of our UK expertise to these regions and continued investment in our infrastructure.

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### FOCUSED INVESTMENT

We believe there is significant potential to develop our category presence across the business and during 2017 we continued to invest in selective scalable capacity and new capabilities. This included investment in automation and factory site expansions.

The Group's listing on the London Stock Exchange included a primary issue of £100 million which will enable us to accelerate our investment programme, creating further value for investors and stakeholders, and bring more great tasting food to consumers.

### A COMMITTED WORKFORCE

Our success is driven by the passion, dedication and commitment of all the people we employ across the Group. On behalf of the Board, I would like to thank each of those colleagues for their efforts and the contribution they have made in getting Bakkavor to where it is today.

In the UK, we employ approximately 17,000 people and a significant number may potentially be impacted by Brexit. Although the outcome remains unclear, we have taken steps in the year to support many of our employees with information on developments and related guidance and we continue to review the business impact of potential changes.

### CORPORATE STRUCTURE

This year has been an exciting year but, nonetheless, a disruptive one, with significant management time taken up by the public listing. I am particularly impressed by the focus and commitment shown by our teams to ensure our customers remained unaffected by this corporate activity.

Ahead of the public listing we took steps to strengthen our Board and I look forward to working with our new Board and benefiting from their experience as we take the Group forward in the next stage of its development.

### A CONFIDENT OUTLOOK

The second half of 2017 saw volume growth impacted as UK consumers reacted to significant inflationary pressure. As expected, this trend has continued into 2018 and is likely to remain until inflation eases. Later in the year, we expect our volume growth to benefit from improved market conditions and new business.

Despite these industry-wide challenges, we are confident that our scale, track record of innovation and focus on operational efficiencies ensures we are well placed to deliver ongoing profitable growth, both from existing business and our long-term investment strategy.

# WE ARE
# INVENTIVE

**Pomegranate seeds have become increasingly popular due to their health benefits — they also make a great topping on our breakfast pots.**

**Innovation is one of our core values and we are extremely proud of our capabilities and expertise, always challenging ourselves to think of great ideas that our customers and consumers love.**

By collaborating across our sites, we bring together different competencies including allergen management, delicate fruit preparation and technical yoghurt processing.

These capabilities, combined with our consumer insight expertise, enabled us to create and launch a range of fresh breakfast compotes, including a pomegranate bircher muesli, to appeal to consumers looking for 'ready to eat' healthy breakfast 'on the move'.

SEE HOW IT'S MADE

**blog.bakkavor.com**

## CHIEF EXECUTIVE'S REVIEW CONTINUED

# UK OPERATIONS

Producing innovative, commercially successful food that offers choice, quality, convenience and freshness for consumers remains the foundation of our success and is what drives growth in the UK.

The Group has a proven operating model for a challenging operational environment, producing over 2,000 short shelf-life products at scale. This level of complexity gives us a unique competitive advantage in the UK segment, which contributed around 90% to total Group revenue in 2017.

During the past year, we have reinforced our leading position in each of the four FPF categories of meals, salads, desserts and pizza & bread, continuing to work collaboratively with key customers to support their growth plans through investments and innovation.

Our close partnerships with our customers, our track record in food safety, combined with our proven ability to generate cash for reinvestment in the business for efficiencies, maintenance and growth, position us well to deliver on our UK strategy.

### UK PERFORMANCE

The UK business generated £1,636.3 million in revenue from continuing operations in 2017, up 4.6%[1] compared to the prior year on a 52 week basis. Like-for-like revenue[2] was £1,621.3 million, which is 4.9% up on 2016.

Revenue growth in 2017 was partly driven by price increases agreed with customers in response to the significant raw material inflation in the year. Volume growth was strong in the first half of the year, supported by a number of significant business gains in the second half of the previous year; a testament to the Group's innovation capabilities, product quality and market-leading technical standards. However, as expected, revenue growth slowed later in the year as higher retail pricing impacted volumes.

Adjusted EBITDA[2] for the year was £145.2 million compared with £137.7 million in 2016. As anticipated, margins remained under pressure throughout the year due to inflationary impacts. However, the business performed well to limit these impacts and, when combined with the volume benefits and tight cost control, the year saw an increase in the Adjusted EBITDA[2] margin to 8.9%, 20 basis points above the prior year.

At an operational level, we remained focused on managing our capacity and investing when necessary to support our customers' growth plans.

### MANAGING INFLATIONARY IMPACTS

During 2017, we were impacted by a combination of unprecedented raw material inflation, largely driven by volatility in the dairy market and the impact of the weakness in Sterling, together with rising labour costs following further increases in the National Living Wage. Working closely with our customers, we successfully mitigated much of this inflation through a combination of pricing, product design and operational performance.

Our significant expertise in growing, planning and buying was critical during this past year of volatile input pricing. No more so than in the salads category, when, in the early part of the year, unforeseen weather conditions markedly affected leaf availability. The experience of the procurement team and the strong relationships Bakkavor has with suppliers, particularly those in Europe and the US, enabled the Group to maintain supplies during this very challenging period.

The rising labour costs experienced following further increases to the National Living Wage were largely offset by performance improvements through efficiency, capital expenditure projects and operational improvement plans in place across the business. These improvement plans, supported by the operational finance team, were targeted to maximise performance and opportunities for efficiency gains across the UK operations.

**UK financial highlights**

| £ million | 2017 | 2016 (53 weeks) | Change |
|---|---|---|---|
| Revenue | **1,636.3** | 1,589.9 | 4.6%[1]/2.9% |
| Like-for-like revenue[2] | **1,621.3** | 1,545.8 | 4.9% |
| Adjusted EBITDA[2] | **145.2** | 137.7 | 5.4% |
| Adjusted EBITDA[2] margin | **8.9%** | 8.7% | 20bps |

1 Growth versus Full Year 2016 on a 52 week basis.
2 Alternative Performance Measures ("APMs"), including 'like-for-like', 'adjusted' and 'underlying' are used as a guide to performance. The definitions and calculations for APMs are set out in Note 41 of the Notes to the Consolidated Financial Statements.

## STRENGTHENING CUSTOMER PARTNERSHIPS THROUGH INSIGHT AND INNOVATION

We continued to focus during the year on strengthening our partnerships in the UK. Bakkavor has relationships with all the major UK grocery retailers, although around 86% of revenues are generated from its four biggest customers: Tesco; M&S; Sainsbury's; and Waitrose. We continue to work closely with these strategic customers through dedicated teams to protect and enhance our partnerships; each team has a differentiated plan and a clear understanding of that customer's fresh prepared food needs.

Bakkavor's extensive knowledge of key food trends and experience in creating innovative and great tasting food is widely recognised by its customers. Around 230 colleagues are dedicated to the development of high-quality products and in the year we created and launched approximately 500 new and improved products for customers. For example, in November 2017, we launched a number of award-winning dessert ranges for Christmas, including a chocolate 'dome' which gained considerable positive press coverage. We also launched the UK's first charcoal-base pizza range, which proved very popular with consumers and again attracted favourable media reviews.

We also won a number of awards during 2017, including Innovation winner for the Prepared Salads Category and Innovative Product of the Year at the Grocer Own Label Food & Drink Awards 2017.

## INVESTING FOR GROWTH

During 2017, the Group continued its UK capital programme, investing behind its facilities to support customer plans and maximise efficiencies and capabilities.

In the year we have seen a number of new investments to enhance capacity and capability following business wins. Good examples of these include investments in our Holbeach pizza factory and our Crewe bread factory.

Towards the end of the year, we started work on a major £35 million expansion of our desserts facility in Newark. This investment will provide increased capacity following recent supplier consolidation in the category as well as market-leading innovation and state-of-the-art automation to support efficiency.

## CHIEF EXECUTIVE'S REVIEW CONTINUED

# INTERNATIONAL OPERATIONS

Bakkavor's strategy to accelerate its performance in China and the US is borne from over 10 years of operating in these regions, where we have developed a strong understanding of these markets and their potential for high growth.

The FPF markets in the US and China are significantly underserved when compared with the UK. Bakkavor has established itself as a pioneer in leveraging its UK expertise to drive the FPF proposition in the US, and in supplying international and local foodservice chains in China, with high standards of food safety and quality.

Our international businesses in the US and China continue to grow as consumer preferences increasingly shift towards fresh prepared food.

### INTERNATIONAL PERFORMANCE

Our International business, whilst still only representing around 10% of the Group, has continued to grow. This business generated £178.5 million in revenue from continuing operations compared with £173.7 million in the prior year. On a like-for-like[2] basis, which excludes the impact of foreign currency movements and the sale of the Group's Belgian business NV Vaco BV on 1 August 2016, revenues increased by 10.0% in the year to £179.0 million.

Adjusted EBITDA[2] for the International segment was £7.4 million for the year, compared with £8.7 million in 2016. Whilst the business in China has profited from strong volume growth, inflationary pressures have partly offset this benefit. We also increased investment in our technical and commercial capabilities, particularly in the US, to ensure we have the appropriate infrastructure for future growth.

### FAVOURABLE MARKET TRENDS IN BOTH REGIONS

The US and China represent highly attractive opportunities for growth, and our target markets in these countries are forecast to grow by at least 10% per annum going forward.

Our US business saw further growth in demand for fresh prepared food during the year, with consumers switching away from frozen and long-life products and increasingly showing a preference for fresh 'better for you' food, such as clean label and organic products.

The Group has continued to develop its US relationships with key strategic customers, extending its category portfolio with a successful new range of burritos, and introducing a new range of ready-to-cook meals with a major customer.

In China, we saw strong growth as we continued to develop our presence in the international and local foodservice markets, fuelled by the rapid rate at which key customers are expanding their store and restaurant portfolios. This provides Bakkavor with a solid base for expansion. In addition, our investment in our new product development capabilities has broadened our offering to major customers, including for example the introduction of fresh soups, salads and breakfast products.

### ACCELERATING PERFORMANCE THROUGH INVESTMENT

The relationship with a key customer in Texas has significantly strengthened during the year as we announced plans to invest $31 million in a dedicated new factory in San Antonio. Working in close partnership with our customer, the facility will supply a wide range of meals and is scheduled to start production later in 2018.

Whilst the Group already has an established presence in the US in the meals, dips and soups & sauces categories, the chilled bread market represents an exciting new growth area where we can capitalise on our UK expertise as market leader in this category. Following a period of market testing, we have now started work on a new bakery facility in Charlotte, which will also be operational later in 2018.

In China, the Group is investing around £20 million in a new state-of-the-art factory just outside Shanghai in Haimen, East China, which again is due to start production in 2018 and will provide additional capacity in this high-growth market. We have also committed £3 million of investment into a new high-quality bread facility near Shanghai, which has recently started production, as we again have the opportunity to capitalise on our UK expertise in this category.

**Agust Gudmundsson**
Chief Executive Officer

9 April 2018

**International financial highlights**

| £ million | 2017 | 2016 (53 weeks) | Change |
|---|---|---|---|
| Revenue | **178.5** | 173.7 | 4.0%[1]/2.8% |
| Like-for-like revenue[2] | **179.0** | 162.7 | 10.0% |
| Adjusted EBITDA[2] | **7.4** | 8.7 | (14.9%) |
| Adjusted EBITDA[2] margin | **4.1%** | 5.0% | (90bps) |

1 Growth versus Full Year 2016 on a 52 week basis.
2 Alternative Performance Measures ("APMs"), including 'like-for-like', 'adjusted' and 'underlying' are used as a guide to performance. The definitions and calculations for APMs are set out in Note 41 of the Notes to the Consolidated Financial Statements.

# MEASURING OUR PROGRESS

We measure our progress by focusing on a number of performance measures which support our strategy and which we believe help deliver long-term value for stakeholders.

### Reported revenue[1] from continuing operations

**+4.6%**

2016 **£1,735.4m**

2017 **£1,814.8m**

The increase in 2017, on a comparable 52 week basis, was due to UK underlying volumes benefiting from the full-year effect of recent business wins and price increases agreed with customers in response to the significant raw material inflation in the year. The International business saw growth, particularly in China as customers expanded their businesses.

### Like-for-like revenue[2] from continuing operations

**+5.4%**

2016 **£1,708.5m**

2017 **£1,800.3m**

Revenue growth at a constant currency (and excluding the impact of Melrow Salads that was closed in November 2017 and NV Vaco BV that was sold in August 2016) was strong for the year as we benefited from good volumes across the business.

### Adjusted EBITDA[2]

**+4.2%**

2016 **£146.4m**

2017 **£152.6m**

The further improvement in the year was due to benefits from the significant volume increases in the first half of the year and the continued focus on cost control and productivity improvements.

### Net cash from operating activities

**-18.7m**

2016 **£112.1m**

2017 **£93.4m**

This was lower than 2016, primarily due to the impact of refinancing costs of £16.3 million in the year and £10.0 million of exceptional payments for the public listing in November 2017.

### Adjusted earnings per share[2]

**+25.5%**

2016 **10.6p**

2017 **13.3p**

This increase reflects the improvement in underlying trading in the year. Basic earnings per share has decreased from 8.8p in 2016 to 5.8p in 2017 due to the impact of refinancing costs and exceptional items in the year.

### Leverage ratio (net debt / adjusted EBITDA[2])

2016 **2.6x**

2017 **1.8x**

As a result of strong cash generation in 2017 and the cash benefit from the primary proceeds from the public listing during the year, debt levels have reduced significantly which has lowered this ratio.

### UK accidents resulting in lost time > 7 days (per 100k employees)

**-6.4%**

2016 **406**

2017 **380**

The Group continued to actively promote safety awareness and accident prevention during the year, resulting in a 6.4% improvement when compared with 2016.

### UK employee turnover

**+5.1%**

2016 **21.6%**

2017 **22.7%**

The Group recognises the importance of attracting and retaining a skilled workforce. The 5.1% increase in UK employee turnover (excluding fixed term contracts) in 2017 is an area of focus and steps are being taken to target improvements in 2018.

1 Growth versus Full Year 2016 on a 52 week basis.
2 Alternative Performance Measures ("APMs"), including 'like-for-like', 'adjusted' and 'underlying' are used as a guide to performance. The definitions and calculations for APMs are set out in Note 41 of the Notes to the Consolidated Financial Statements.

Notes:
Throughout this report all comparative amounts are presented for the 53 week period ended 31 December 2016 unless otherwise stated.
The KPIs set out above are those that are reported internally in the business.

# WE ARE AGILE

## Our quick turnaround capability enables us to receive orders for our customers 'on-the-day, for-the-day.'

**Our customers' orders are typically confirmed early in the morning and collected within 24 hours.**

To successfully fulfil orders 364 days a year requires great agility due to the complex nature of manufacturing short shelf-life products at scale.

For example, ingredients such as baby leaf lettuce are prepared, packed and despatched within 24 hours of picking from the field.

In our meals category, it is our ability to quickly and safely transition from one product line to the next that enables us to produce around 250 different product lines at a single factory site every day.

SEE HOW IT'S MADE

**blog.bakkavor.com**

# DESIGNED TO HELP US DELIVER AGAINST OUR STRATEGY

Bakkavor's risk management process is designed to help the Group deliver against its strategy, while protecting the interests of key stakeholders and safeguarding assets including its people, finances and reputation.

The Group Board has overall responsibility for ensuring the effective identification and management of key strategic and emerging risks, and for the review and approval of the ongoing risk management process, including the determination of clear policies as to what can be considered an acceptable level of risk.

During 2017, Bakkavor undertook a review of its risk identification and management process and put in place a formal Risk Register, which has been in place up to the date of this Annual Report. The Risk Register identifies the principal risks faced by the Group and the key mitigating actions used to address them.

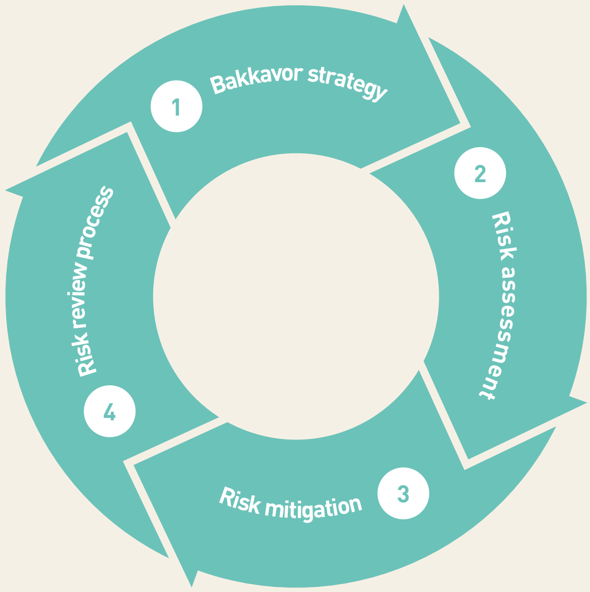
The Audit and Risk Committee, delegated by the Group Board, reviews the effectiveness of the Group's risk management process and internal control system and receives regular reports from management and Internal and External Auditors. These detail the risks that are relevant to business activity, the effectiveness of internal controls in dealing with these risks and any required remedial action, together with an update on their implementation.

The Audit and Risk Committee reports to the Group Board on the effectiveness of the risk management process.

Day-to-day risk management is led by Senior Management with ownership for individual risks, as identified in the Risk Register, assigned to a member of the Senior Management team. Management of risk is embedded in daily working practices and underpinned by Bakkavor's policies and Code of Conduct and Business Ethics.

Where risks are identified, action plans are developed to mitigate the risk with clear allocation of responsibilities and timescales for completion. Progress towards implementing these plans is monitored and reported back to the Group Board through the Audit and Risk Committee as part of a structured business review.

**Risk management process**




1 The process begins with the evaluation of the most significant strategic risks for Bakkavor.
2 Senior Management must regularly assess risks for potential impact.
3 Action plans for mitigating significant risks are developed and implemented.
4 The Audit and Risk Committee, delegated by the Group Board, is responsible for the independent review of the effectiveness of risk management and the internal control system.

# RISK MANAGEMENT CONTINUED

## Internal control system
The internal control system provides Senior Management with an ongoing process for risk management. The system can only provide reasonable, and not absolute, assurance, as it is designed to manage rather than eliminate all risks.

Examples of the Bakkavor internal control system are:

**Health and safety —** The Group promotes a proactive safety and accident awareness culture and has in place health and safety teams that define standards and monitor compliance with the Group's systems for ensuring workplace safety.

**Food safety —** The Group strives to deliver food products with the highest levels of safety and integrity to its customers. Bakkavor applies food safety procedures when designing and managing all of its sites, including rigorous testing and Hazard Analysis and Critical Control Point management systems.

**Food quality —** The Group maintains strict controls regarding the authenticity and quality of the products it manufactures and supplies. Bakkavor is subject to regular inspection by food safety and other authorities for compliance with applicable food laws.

**IT systems —** The Group has a Disaster Recovery Programme in place and strict policies to ensure its IT infrastructure and equipment are sufficiently protected. In addition, Bakkavor has in place a continuous IT Risk and Security Programme.

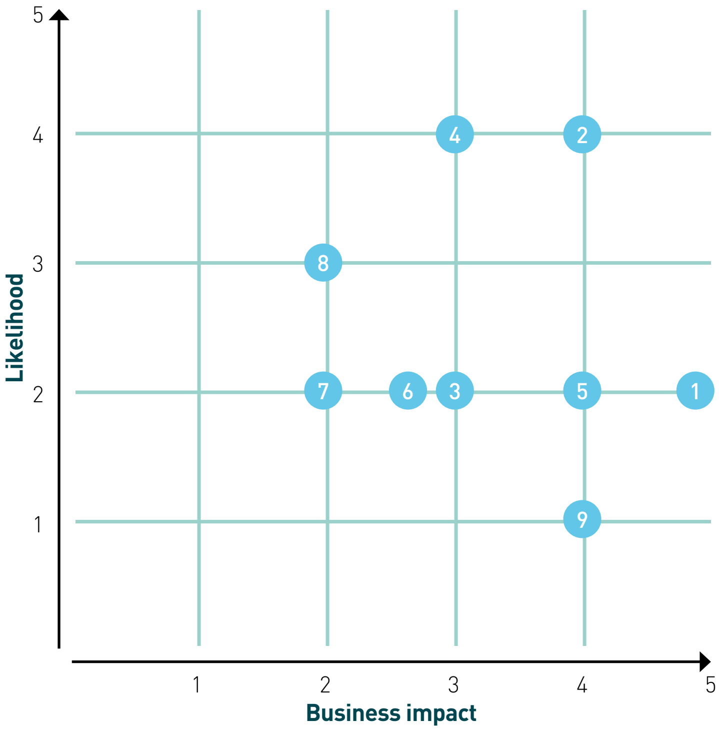
**Treasury —** The Group has a treasury policy in place with its main objectives to ensure that appropriate capital resources are available for the maintenance and development of the Group's businesses, and to ensure that the financial risk relating to the Group's currency, interest rate and counterparty credit exposure is understood, measured and managed appropriately.

## Risk appetite
The Group's approach is to minimise exposure to reputational, financial and operational risk, while accepting a risk/reward trade-off in achieving its strategic objectives. As a food producing business, food safety and integrity is of paramount importance and all reasonable efforts are made to mitigate risk in this area.

The business takes a measured approach to overseas investment to minimise risk exposure. Whilst significant capital expenditure is planned for 2018 in the US and China, these are markets within which Bakkavor has operated for many years. Therefore, whilst there is an element of risk in all investments, we believe the Company is well placed to make a measured approach and minimise exposure in these two key markets.

## 2018 Plan
Following the implementation of a formal Risk Register during 2017, the Group intends to further improve its operational risk management capabilities. In addition, the Group is now subject to increased regulation as a listed company and will continue to put in place relevant internal controls during 2018 to ensure compliance.

## Risk assessment map




1. Food safety and integrity
2. Raw material costs
3. Customer concentration
4. Labour scarcity and costs
5. IT systems
6. Health and safety and the environment
7. Loss of key employees
8. Exchange rate
9. Liquidity and covenant compliance

**Principal risks and uncertainties**
Change in risk level over past 12 months

↑ higher  — level  ↓ lower

| Risk area | Risk description | Mitigating controls | Developments in 2017 |
|---|---|---|---|
| **Food safety and integrity** — | Millions of people eat our products every day. We have a duty to make food that is safe and is clearly and correctly labelled.<br><br>Consumer safety and confidence are vital to our business; any issue that breaches that trust could result in loss or reduction of customer business and also impact our credibility and reputation. | Stringent food safety policies in place throughout the organisation and use of Hazard Analysis Critical Control Point ("HACCP") principles to identify and control food safety risks.<br><br>Employees trained against documented procedures.<br><br>Food safety controls regularly audited by internal and external parties. Emerging risks monitored by working with industry and regulatory bodies.<br><br>Food safety audits conducted for new suppliers with regular audits of existing suppliers.<br><br>Regular reporting of food safety performance to the Group Board and immediate reporting of significant issues. | Continued to ensure Bakkavor met all legal and customer standards and is HACCP compliant.<br><br>New UK Technical Director joined the team to ensure standards are continually reviewed.<br><br>Improved approach to internal audits. |
| **Raw material costs** ↑ | The Group's cost base and margin are vulnerable to fluctuations in the price and availability of raw materials, packaging materials and freight.<br><br>Ability to pass on any increases in these costs to customers within a reasonable timeframe is a challenge and failure to do so could impact the Group's profitability and hence its ability to continue to invest in the business. | Central procurement team focused on achieving a balance between price, quality, availability and service levels.<br><br>Forward purchasing agreed and price variations passed on where possible. Agreements in place with some customers on recovery of raw material cost impacts.<br><br>Continued focus on cost reduction and productivity enhancements. | Continued to extend number of cost models in place with customers through inflationary period.<br><br>Continued to work more collaboratively with customers regarding purchasing strategies.<br><br>Further strengthened supplier base, particularly in the US and Europe. |
| **Customer concentration** — | We work with four of the largest food retailers in the UK and a significant proportion of our revenue is from these customers.<br><br>Any major customer loss would have a significant negative impact on our business. | Partnership model in place with customers. In the UK, customer specific champions and teams manage strategic customer relationships.<br><br>Relationships with all grocery retailers beyond four largest gives breadth of cover.<br><br>Strong reputation in food safety and quality.<br><br>Reputation amongst customers for strong insights and innovation capabilities.<br><br>Significant investment in manufacturing facilities and highly complex 'just in time' manufacturing process. | Continued to drive 'partnership' model with four largest customers to develop deep relationships and arrangements.<br><br>Built more strategic relationships with smaller, emerging customers.<br><br>Continued to evaluate opportunities outside mainstream grocery retailer base. |

# RISK MANAGEMENT CONTINUED

**Principal risks and uncertainties continued**
Change in risk level over past 12 months

higher level lower

| Risk area | Risk description | Mitigating controls | Developments in 2017 |
|---|---|---|---|
| **Labour scarcity and costs** | Higher labour costs and the scarcity of labour could affect the Group's business and future profitability. The Group competes with other manufacturers for good and dependable employees. The supply of such employees is limited and competition to hire and retain them may result in higher labour costs.<br>Additionally, for the Group's UK operations, Brexit presents a risk as historically the Group has employed a material number of citizens from the European Union. | Specific campaigns and focus groups in place targeting recruitment of future employees and building attractiveness of careers in food industry.<br>Initiatives in place to enhance and upgrade factory site facilities to help attract and retain employees.<br>Central staff dedicated to recruitment and management of staff costs.<br>Initiatives in place to support employees with Brexit-related concerns. | Centralised resource function to support recruitment process.<br>Focused on talent development including apprenticeship schemes to build future talent.<br>Introduced Brexit retention programme to offer advice and support to employees. |
| **IT systems** | Unauthorised access of the Company's Information Technology ("IT") systems could lead to breaches of data protection and release of market sensitive information.<br>Any breakdown or failure in the Group's IT infrastructure or the Group's communication networks, including malicious cyber-attacks by third parties, could delay or otherwise impact the Group's day-to-day business. | Group Information Systems ("IS") manage access to business data through strong password protection, role-based access to business systems and policies to ensure appropriate use.<br>The Group IS department has delivered Disaster Recovery ("DR") for critical systems and is working towards delivering DR for important systems.<br>Group IS has strict policies and actively ensures IS infrastructure and equipment are sufficiently protected against malicious cyber attacks. | Business as usual continual improvements supported by a continuous Risk and Security programme.<br>DR delivery programme will continue through to the end of 2018.<br>Focus areas included improvements to patching regimes and a number of upgrade projects to ensure services remain on supported platforms.<br>The Risk and Security programme continued to support the delivery of enhancements in these areas. |
| **Health and safety and the environment** | We understand our duty of care to secure and protect the health and safety ("H&S") of our employees and to reduce the environmental impact of our operations. Failure to maintain the H&S of employees could have a significant reputational impact and also have serious legal consequences. | H&S and environmental impacts are managed by the Group's in-house experts who embed and monitor practices.<br>Stringent processes are implemented for identifying and managing H&S and environmental risks.<br>Regular reporting of H&S Key Performance Indicators to the Group Board and immediate reporting of significant issues.<br>Culture of employee engagement around accident prevention across the Group. | Increased central resource.<br>Changed approach to Internal Audit, increasing frequency and moving to an unannounced format.<br>Improved data capture process to record environmental performance. |

Change in risk level over past 12 months

↑ higher — level ↓ lower

| Risk area | Risk description | Mitigating controls | Developments in 2017 |
| --- | --- | --- | --- |
| **Loss of key employees** ↑ | We have a highly experienced Senior Management team who are passionate about our business and who are integral to our continued growth and success as a market leader. The loss of any of these personnel or the Group's inability to recruit new personnel would have an adverse impact on the Group.<br><br>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.<br><br>Ongoing succession planning, commitment to training and bonus schemes in place to retain key personnel and manage staff turnover. | Post the public listing, management retention initiatives devised for early 2018 implementation. |
| **Exchange rate** — | In the multi-currency trading environment in which the Group operates, there are inherent risks associated with fluctuations in foreign exchange rates. | Treasury function operates within framework of strict Group Board-approved policies and procedures.<br><br>Active foreign exchange hedging programme maintained.<br><br>Active policy of hedging known non-Sterling denominated expenditure both for specific projects and on a rolling basis for material purchases. | Continued review of exposures and subsequent hedging, with regular reporting back to the Group Hedging Committee and Audit and Risk Committee.<br><br>Assessment of financial instruments available for hedging. |
| **Liquidity and covenant compliance** ↓ | To achieve our growth objectives, we require a strong financial platform.<br><br>The Group has significant facilities governed by financing agreements under which we are subject to various financial covenants and undertakings.<br><br>Breaching any covenant would impair our ability to maintain existing financing and secure future financing, thereby destabilising the business. | Financial results, projections and covenant performance reviewed regularly.<br><br>Open and regular dialogue with our lenders and an active investor engagement programme. | New financing arrangements entered into in 2017 with extended maturity and reduced interest costs. Public bonds redeemed.<br><br>Overall net debt and leverage reduced through trading profit and funds raised in the public listing. |

# FINANCIAL REVIEW

## STRONG TRADING PERFORMANCE IN A HIGHLY INFLATIONARY ENVIRONMENT

The Group typically presents its annual results covering a 52 week period. However, every six years an additional week is included in the Group's reporting period to ensure that its end-of-year date is near the end of December. Consequently, the Group's results for 2016 are based on a 53 week trading period as compared to financial year 2017 which is a 52 week trading period. To assist with comparability, revenue, cost of sales and gross profit for 2016 are discussed below on a 52 week basis in addition to the 53 week comparison.

### REVENUE

Revenue from continuing operations increased by £51.2 million, or 2.9% from £1,763.6 million in 2016 (53 weeks), to £1,814.8 million in 2017.

On a 52 week basis, revenue from continuing operations increased by £79.4 million, or 4.6%, from £1,735.4 million in 2016 to £1,814.8 million in 2017.

Like-for-like revenue[2] grew by 5.4%, from £1,708.5 million in 2016, to £1,800.3 million in 2017. This increase was primarily due to strong growth in the Group's operating segments, as described below.

### SEGMENTAL BREAKDOWN

In the UK segment, revenue from continuing operations increased by £46.4 million, or 2.9%, from £1,589.9 million in 2016 (53 weeks) to £1,636.3 million in 2017.

On a 52 week basis, revenue from continuing operations in the UK segment increased by £72.6 million, or 4.6%, from £1,563.7 million in 2016 to £1,636.3 million in 2017.

Like-for-like revenue[2], which excludes our Melrow Salads business that was closed in November 2017, grew by 4.9%, from £1,545.8 million in 2016, to £1,621.3 million in 2017. Melrow Salads contributed revenues of £15.0 million in 2017 for the period up to its closure.

This increase in revenue was primarily due to strong growth across all key customers, with underlying volumes benefiting from the full-year effect of recent business wins. In addition, revenues increased as a result of price increases agreed with customers in response to the significant raw material inflation seen through the year.

In the International segment, revenue from continuing operations increased by £4.8 million, or 2.8%, to £178.5 million in 2017 from £173.7 million in 2016 (53 weeks).

On a 52 week basis, revenue from continuing operations in the International segment increased by £6.8 million, or 4.0%, to £178.5 million in 2017 from £171.7 million in 2016. Revenue growth in 2017 was impacted by the sale of the Group's Belgian business NV Vaco BV on 1 August 2016, which had contributed revenue of £17.0 million in 2016. This loss of revenue was partly offset by favourable foreign currency movements.

Like-for-like revenue[2] grew by 10.0%, from £162.7 million in 2016, to £179.0 million in 2017. The increase was primarily due to strong growth in our business in China, where sales volumes increased with all key customers.

### COST OF SALES

Cost of sales from continuing operations increased by £53.2 million, or 4.2%, from £1,275.9 million in 2016 (53 weeks) to £1,329.1 million in 2017.

On a 52 week basis, cost of sales from continuing operations increased by £75.8 million, or 6.0%, from £1,253.3 million in 2016 to £1,329.1 million in 2017.

This increase was largely due to a combination of an increase in raw materials and direct labour costs supporting the sales volume growth in the year. Costs also increased due to the high level of raw material inflation in 2017 across most ingredients, but particularly those that were dairy related, and the continued impact of further increases in the National Living Wage on labour costs in the UK.

### GROSS PROFIT

Gross profit reduced by £2.0 million, or 0.4%, from £487.7 million in 2016 (53 weeks) to £485.7 million in 2017.

On a 52 week basis, gross profit increased by £3.6 million, or 0.7%, from £482.1 million in 2016 to £485.7 million in 2017.

This increase was primarily due to the benefits from the sales volume increases more than offsetting the increase in raw material and direct labour costs.

### DISTRIBUTION COSTS

Distribution costs were marginally lower at £77.2 million in 2017, a £0.8 million, or 1.0%, decrease from £78.0 million for 2016. The reduction was due to 2016 including an additional trading week.

### OTHER ADMINISTRATIVE COSTS

Administrative costs decreased by £6.1 million, or 1.9%, from £319.0 million in 2016 to £312.9 million in 2017.

Administrative costs for underlying activities excluding exceptional items and impairment of assets reduced by £5.3 million, or 1.8%, from £302.8 million in 2016 to £297.5 million in 2017.

This decrease was primarily due to the Group's tight control over costs and 2016 included £4.3 million of costs in respect of NV Vaco BV, which was sold on 1 August 2016. Excluding the impact of the sale of NV Vaco BV, total administrative costs were broadly flat.

## ADJUSTED EBITDA[2]

Adjusted EBITDA[2] increased by £6.2 million, or 4.2%, from £146.4 million in 2016 to £152.6 million in 2017.

This increase was primarily due to the benefits from a significant increase in sales volumes in the first half of 2017 and the Group's continued focus on cost control and productivity improvements.

## OTHER ITEMS

Included within administrative costs are other items as follows:

| £ million | 2017 | 2016 |
|---|---|---|
| **Exceptional items** | | |
| Public listing costs | 10.4 | – |
| Transaction costs | – | 5.2 |
| Restructuring costs | 3.1 | 1.3 |
| Legal cases | 0.6 | 1.5 |
| New site costs | 1.3 | – |
| | 15.4 | 8.0 |
| **Impairment** | | |
| Property, plant and equipment | – | 8.2 |
| | 15.4 | 16.2 |

### Exceptional items

The Group has incurred £10.4 million of costs in 2017 in connection with the public listing in November 2017. The restructuring costs of £3.1 million in the year relate to the cost of closing a site in the UK and moving related operations to other sites. The remaining exceptional costs relate to the Group's US business, of which £1.3 million is in respect of initial start-up costs for a new factory and the remaining £0.6 million due to ongoing employment litigation.

In 2016, the Group incurred exceptional costs of £8.0 million, of which £5.2 million relate to the fees incurred that year 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 relate to redundancy costs following the loss of some business at one of the Group's UK operations; and £1.5 million relate to legal and other costs in respect of an intellectual property dispute that has now been concluded.

### 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. There were no impairment charges in 2017 but in 2016 the review resulted in an impairment charge of £8.2 million for UK property, plant and equipment.

2 Alternative Performance Measures ("APMs"), including 'like-for-like', 'adjusted' and 'underlying' are used as a guide to performance. The definitions and calculations for APMs are set out in Note 41 of the Notes to the Consolidated Financial Statements.

## SHARE OF RESULTS OF ASSOCIATES AFTER TAX

Share of results of associates after tax decreased by £0.1 million, or 14.3%, from £0.7 million in 2016 to £0.6 million in 2017. This decrease was due to an increase in the cost base for the Group's associate La Rose Noire Limited as it continues to expand its operations.

## OPERATING PROFIT

Statutory operating profit increased by £4.7 million, or 5.1%, from £91.5 million in 2016 to £96.2 million in 2017 with margins increasing by 10 basis points to 5.3%. This increase was primarily due to benefits from the increase in sales volumes and the productivity improvements across the business. The statutory operating profit for the UK segment increased by £8.1 million in the year from £86.8 million in 2016 to £94.9 million. For the International segment, statutory operating profit decreased by £3.4 million from £4.7 million in 2016 to £1.3 million. Before exceptional items and impairment of assets, the operating margins for 2017 were in line with 2016 at 6.1%.

## FINANCE COSTS

Finance costs decreased by £3.8 million, or 9.8%, from £38.8 million in 2016 to £35.0 million in 2017.

In 2017 these include payment of a call premium of £9.9 million in respect of the early redemption of the 2020 Senior Secured Notes as part of a refinancing of the Group's lending facilities in March 2017. In addition, accelerated amortisation of refinancing fees in relation to the previous debt facilities necessitated a charge of £3.3 million. In 2016, the Group incurred a call premium of £1.5 million and accelerated amortisation of £0.7 million in refinancing fees in connection with the early redemption of £75 million of the 2018 Senior Secured Notes. Excluding these costs in both years, finance costs decreased by £14.8 million in 2017, which reflects the benefits of lower debt levels and the reduction in the cost of debt to circa 3.5% per annum.

## OTHER GAINS AND LOSSES

Other gains and losses moved by £32.5 million, from a gain of £10.3 million in 2016, to a loss of £22.2 million in 2017. This change was primarily due to a £17.2 million non-cash loss in 2017, reversing previous gains on the fair value of the call option within the 2020 Senior Secured Notes following redemption of the Notes in March 2017. The Group also incurred mark to market losses of £2.1 million on its financial derivatives in 2017 compared to a gain of £4.6 million for 2016.

## TAX

The tax charge for the year decreased by £4.3 million, or 35.0%, from £12.3 million in 2016 to £8.0 million in 2017, largely due to an increase in the deferred tax asset recognised for US trading losses, giving an effective rate of 20.5% for 2017. Excluding the impact of exceptional costs in the year of £15.4 million, the effective tax rate is 15.4%. This is higher than originally expected due to the impact of the enacting in December 2017 of a lower US corporate tax rate of 21% compared to the previous rate of 35% which reduced the value of the increase in the deferred tax asset recognised in 2017 for the historic US trading losses. This is considered to be a one-off impact for 2017 and we expect the 2018 effective rate to be between 14% and 15%.

# FINANCIAL REVIEW CONTINUED

## PROFIT FOR THE PERIOD

As a result of the foregoing, profit for the period decreased by £20.3 million, or 39.6%, from £51.3 million in 2016 to £31.0 million in 2017. Excluding the impact of exceptional items and refinancing costs in 2016 and 2017, the underlying profit for the year has increased by £9.3 million to £70.5 million.

## EARNINGS PER SHARE

Basic earnings per share has decreased from 8.8p for 2016 to 5.8p in 2017, reflecting exceptional and refinancing costs incurred in the year. However, adjusted earnings per share[2] has increased from 10.6p for 2016 to 13.3p in 2017 which reflects the improvement in underlying trading for the business in the year. The weighted average number of shares for 2017 was 530,738,162 and for 2016 was 578,645,254, after adjusting for the 1 for 5 share split that took place in November 2017 in advance of the public listing.

## CASH FLOW

Free cash flow[2] for the year of £71.1 million was £12.6 million higher than the previous year. This was largely due to expenditure on core capital (excluding development projects) being £11.3 million lower than 2016 as a number of projects were rephased from the latter half of 2017 and into 2018. Our effective management of working capital delivered a further benefit of £8.6 million for the year and interest payments were £15.1 million lower this year following the refinancing in March 2017. The free cash generated was partly offset by refinancing fees of £16.3 million, which included payment of a call premium of £9.9 million for the early redemption of the Senior Secured Notes due to mature in 2020.

## CAPITAL, DEBT AND LEVERAGE

On 23 March 2017, the Group completed a refinancing of its debt facilities, putting in place a new £485 million corporate loan facility comprising a revolving credit facility 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 funds from the refinancing were used to repay in full existing bank debt, redeem all outstanding Senior Secured Notes maturing in 2018 and 2020 and pay associated fees. The Group's new debt funding structure provides the Group with a significant reduction in interest costs while extending the maturity of the funding commitments. In November 2017 the Group repaid £37.5 million of the term loans.

On 16 November 2017 the Group successfully completed a public listing on the London Stock Exchange, raising gross primary proceeds of £100 million from the issue of 55,555,555 ordinary shares of £0.02 each at £1.80 per share. The total transaction costs amounted to £13.8 million, of which £3.4 million related directly to the primary issue and have been offset against the gross proceeds within the share premium account and the balance of £10.4 million has been charged to exceptional items. The proceeds raised will be used to fund the Group's development projects over the next two years.

As a result of the strong free cash generation and cash raised through the public listing, operational net debt has reduced by £112.6 million to £270.5 million. Leverage (the ratio of operational net debt to adjusted EBITDA) was 1.8 times at the end of 2017, down from 2.6 times at the end of 2016 and within the Group's target range of 1.5 – 2.0 times. The Group's liquidity position remains strong with good headroom against all financial covenants.

## RETURN ON INVESTED CAPITAL[2]

The increase in operating profit in 2017 has driven a further improvement in the Group's Return on Invested Capital[2] ("ROIC") which has increased from 11.7% in 2016 to 12.2% in 2017. Going forward, the Group plans to spend circa 3.5% of revenues on capital investment, and in addition will use the proceeds from the primary issue to fund certain key development projects to deliver further improvements in returns.

## PENSIONS

Under the IAS 19 valuation principles that are required to be used for accounting purposes the Group recognised a surplus of £5.2 million for the UK defined benefit scheme as at 30 December 2017 (2016: deficit of £10.0 million). The surplus has been recognised under IFRIC 14 as the scheme's terms and conditions allow the Group to have an unconditional right to a refund of contributions when economic benefits are available. The movement from a deficit in the prior year to a surplus is largely due to an increase in the fair value of the scheme's assets and the effective liability hedging in place.

The Group and the Trustee agreed in April 2017 the triennial valuation of the UK defined benefit pension scheme as at 31 March 2016. This resulted in a funding shortfall which continues to be paid over an agreed eight-year recovery period ending on 31 March 2024. The recovery contributions over that period amount to £22.5 million with £4.5 million payable for the year ending 31 March 2018.

## DIVIDEND

As set out in the public listing prospectus, no dividend will be declared in respect of the financial year 2017. The Group has confirmed its intention that a dividend equivalent to 40% of adjusted profit after tax for the financial year 2018, will be paid, with an interim payment in September 2018 of approximately one third of the expected total for the full year.

**Peter Gates**
Chief Financial Officer

9 April 2018

2 Alternative Performance Measures ("APMs"), including 'like-for-like', 'adjusted' and 'underlying' are used as a guide to performance. The definitions and calculations for APMs are set out in Note 41 of the Notes to the Consolidated Financial Statements.

# WE ARE TRUSTED

## We source over 5,000 quality ingredients from around the world.

**We recognise our responsibility to ensure the traceability of our food through all stages of production, processing and distribution.**

We visit and audit suppliers around the world and use multiple suppliers for certain ingredients to ensure year round supply.

Ensuring the integrity of these ingredients is a vital part of our business and we adopt a risk-assessed approach to cover all aspects of food safety, ethical requirements and environmental responsibility.

SEE HOW IT'S MADE

**blog.bakkavor.com**

# CORPORATE RESPONSIBILITY

## WE BELIEVE IN DOING THE RIGHT THING, IN THE RIGHT WAY

At Bakkavor, we recognise and take seriously the significant trust placed in us by our stakeholders. As we continue to grow and develop, Corporate Responsibility ("CR") is an integral part of our strategy and is crucial to how we drive growth, productivity and enhance and protect our reputation.

Building a sustainable business is in the long-term interests of our stakeholders, including customers, investors, suppliers, our people and all the consumers that have access to and choose our food products.

### OUR APPROACH

In November 2017, we listed on the London Stock Exchange, providing us with a platform from which to further develop our CR activities, not just in the UK, where we have the majority of our operations and factories, but also internationally, where we are expanding our presence.

Whilst we already undertake a large number of CR-related initiatives across our factories in the UK, we have begun the process of centralising our CR efforts at Group level with a more focused CR programme. During the year, we put in place a flexible framework to guide and support our developments in CR and our commitment to furthering this agenda at Bakkavor in the years ahead. The framework reflects the responsibility and duty of care we have for our colleagues, the communities which we operate within, our customers and all those who consume our products every day.

Our CR framework covers four key areas of Food safety and integrity, Environment, Workplace and Community.


Our focus on safety is fundamental. Food safety and workplace health and safety are not a business choice, nor are they responsibilities that we can part-achieve. They are integral to the way we work every day and embedded in our culture and values.

In the UK, CR initiatives are organised at a local level across all 24 factory sites and are often co-ordinated or communicated through each site's 'Site Employee Forum' ("SEF"). The SEF feeds into a Group Employee Forum ("GEF") which offers a platform to share ideas and best practice and which also recognises all the good work going on across the business via our annual Group Responsibility Awards.

Bakkavor recognises that the majority of its CR data is currently limited to its UK factory site operations. During the year, the Group undertook a review of its data capture process and put in place measures to begin the collection of CR data from its International business. The Group also put in place more robust and efficient mechanisms to measure environmental waste data both in the UK and across its International business.


### GOVERNANCE OF CORPORATE RESPONSIBILITY

Corporate Responsibility is monitored by the Senior Management team and reported to the Group Board. The Group Board reviews progress in these areas against the priorities set for the year. Currently the Group sets priorities in the areas of Food safety and integrity, Workplace health and safety and Workplace recruitment, retention and development.

During the year, the Group introduced the Bakkavor Code of Conduct to support good governance of behaviours.

This Code replaces a number of separate codes and policies and sets out the ethics and principles which are upheld by our people. Its launch was supported by a mandatory questionnaire to ensure understanding of the Code across the Group. The Code includes a number of policies and procedures that govern the way we do business. These cover areas including anti-bribery and business ethics, IT usage policy and further statements to support our commitment to acting professionally, fairly and with integrity.

Bakkavor is committed to the highest standards of ethics and integrity. Slavery, forced or trafficked labour will not be tolerated within our business or our supply chain. This is an issue on which we have no complacency and we are steadfast in ensuring that Bakkavor remains a fair and rewarding place to work. A copy of our Modern Slavery Statement is available on our website.

## FOOD SAFETY AND INTEGRITY

**Our passion for food is core to our business and that passion is only realisable if our customers and consumers trust our food.**

Bakkavor manufactures food that is not only great tasting for consumers, but which also meets the highest standards of safety. In addition to customer requirements, the Group is subject to extensive food safety regulations and, where required, governmental monitoring in each of the countries in which it operates.

The Group uses HACCP principles to identify any potential food safety risks and to ensure these risks are robustly controlled. To deliver these controls consistently, the Group adheres to documented food safety procedures when developing and manufacturing its products. These procedures form the backbone of Bakkavor Quality Management Systems and Standards. To ensure they are designed and implemented effectively Bakkavor employs more than 500 food safety professionals.

Bakkavor ensures it has effective food safety systems through vigorous inspection, testing and reporting procedures. Sites are audited regularly, often on an unannounced basis, by internal food safety experts, customers and independent bodies for compliance with food safety standards.

The effectiveness of Bakkavor HACCP plans is also verified through a regular testing programme. For example, in the UK, the Group conducts over 2,000 in-house microbiology and chemistry tests every day.

21 of the Group's UK manufacturing sites also hold certification at 'A' grade against the British Retail Consortium Global Standard — Food Safety.

As a food producer we recognise the significant part we can play in shaping food habits and behaviours. We support the growing trend for healthy convenient food, and through our insight and innovation capabilities, we do our utmost to provide consumers with nutritious and fresh food choices that help support a healthy lifestyle.

In the year, we continued to collaborate with our customers to respond to healthy eating trends and to review the salt, sugar and saturated fat levels in our food and introduced a number of healthy food ranges.

We source over 5,000 different ingredients from around the world. We recognise our responsibility to ensure the traceability of our food through all stages of production, processing and distribution.

We visit and audit suppliers around the world and use multiple suppliers for certain ingredients to ensure year round supply.

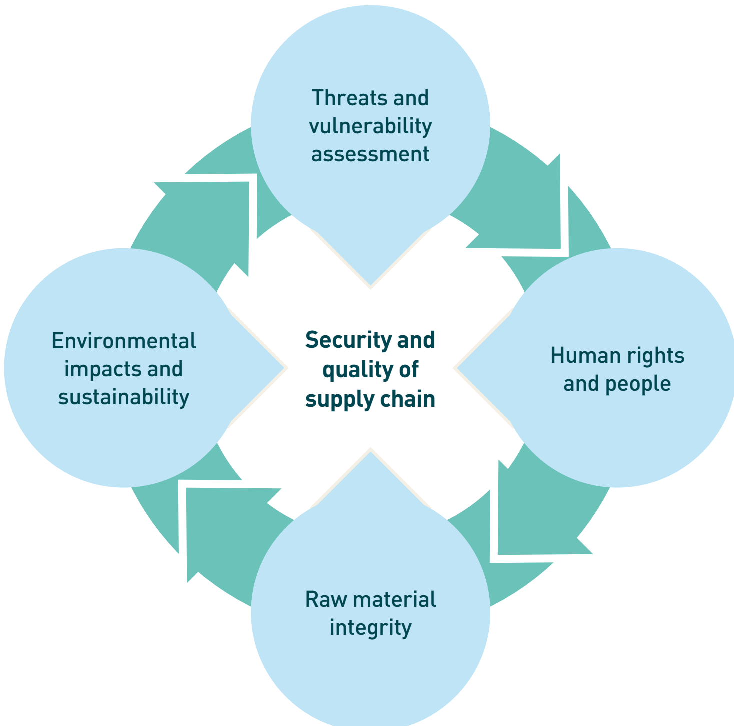
Ensuring the integrity of these ingredients is a vital part of our business and Bakkavor adopts a risk-assessed approach to cover all aspects of food safety, ethical requirements and environmental responsibility.

**Food safety and integrity priorities for 2018 are:**

- To maintain current high standards by ensuring a robust governance process and reporting and escalation process
- To ensure raw materials are safe and sourced in line with exacting customer requirements
- To ensure we have the best food safety experts in the business, and links to relevant industry bodies and external experts

## RESPONSIBLE SOURCING

**Risk assessment — Own operations and supply chain**



# CORPORATE RESPONSIBILITY CONTINUED

## ENVIRONMENT

**Bakkavor is committed to addressing the effects of climate change and undertakes many practical activities and initiatives across the Group to reduce its overall carbon footprint and protect the environment.**

As a responsible business, Bakkavor recognises that its operations have both direct and indirect impacts on the environment. The Group encourages environmental efficiency through a Group-wide focus on the four main areas of waste, water, energy efficiency and packaging.

Bakkavor has this year put in place a data capture process across the Group to record its waste management performance and further processes to capture its carbon emissions in its US and China factories. The Group aims to improve its environmental performance through a number of sustainability initiatives.

In 2017, Bakkavor sent less than 1% of its UK waste to landfill and in addition managed surplus food through its staff shop and local food charities, including 'Company Shop', 'Community Shop' and FareShare.

Bakkavor's Caledonian Produce site was awarded the 'Reduce, Reuse, Recycle Award' at the 2017 National CSR Awards for its 'Sustainability in Action' campaign. The campaign transformed the factory's approach to waste management and the business achieved zero waste to landfill.

During the year, Bakkavor continued to invest in its water efficiency programmes. In the UK, we were awarded 'Most Innovative Water Scheme in Europe' by Water Reuse Europe trade association for our new waste water facility, developed in conjunction with Aquabio, in Lincolnshire, UK. The investment demonstrates Bakkavor's commitment to environmental efficiency with over 80% of the water used in the facility being recycled. The initiative also won the 'Environmental Leadership Award' at the M&S 'Plan A' Awards.


In China, the Group continued to invest in cost effective upgrades to its sites to maximise environmental efficiency. In Beijing, Bakkavor is currently developing a new waste water treatment facility expected to be operational in the first half of 2018.

### Greenhouse gas emission statement

Greenhouse gas ("GHG") emissions for the year ended 30 December 2017 have been measured and reported as required under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, following the UK Government Environmental Reporting Guidelines (June 2013).

The total gross GHG emissions reported include all Scope 1 and Scope 2 emissions for the Bakkavor Group in the UK. This covers UK factory sites where Bakkavor has full operational control. Data has not been collected for sites owned by Bakkavor but leased to tenants as Bakkavor does not have oversight or control of this energy usage and emissions data.

Bakkavor's International business put in place a data capture process to collect carbon emissions data from 1 January 2018 onwards.

Scope 1 emissions are those that directly release GHGs and include fuel consumed by our manufacturing facilities, offices, warehouses and our vehicle fleet, and releases of fluorinated gases from our refrigeration plant. Scope 2 emissions are released indirectly from our consumption of energy sources (electricity and cooling streams). As this is the first year for the Group to present this information, no comparative data from the previous year is available.

Bakkavor has used the WRI/GHG Protocol Corporate Accounting and Reporting standard and emission factors from Defra's UK Government GHG Conversion Factors for Company Reporting to calculate the GHG emissions where they are not separately provided by a supplier.

The Group's environmental management system is based on ISO 14001.

**Greenhouse gas emissions (for the year ended 30 December 2017)**

| | 2017 emissions $tCO_2e$ | 2017 intensity ratio $tCO_2e$/£m turnover) |
|---|---|---|
| Scope 1<br>Emissions from combustion of fuel and operation of facilities | 112,392 | 68.68 |
| Scope 2<br>Emissions from purchased electricity and cooling | 80,606 | 49.26 |
| **Total gross emissions** | **192,998** | |
| Green tariff | (22,747) | |
| **Total** | **170,251** | **117.94** |

The vast majority of our GHG emissions arise from our factory sites' heating and cooling operations. We have a programme of activities across the sites to reduce energy use and hence GHG emissions. During 2017, we also moved to a renewable electricity supply contract across our sites to support our energy reduction programme.

Each factory site has a Climate Change Agreement ("CCA") and, as part of this, has energy efficiency targets to meet by 2020 compared to a 2008 base year. The average target is a 22% efficiency improvement and Bakkavor regularly monitors and reports progress internally. Bakkavor is currently in the process of translating these energy efficiency targets into GHG reduction targets. These targets and related performance will be disclosed in the 2018 Annual Report.

## WORKPLACE

**We are committed to providing a workplace environment where people are safe, engaged and motivated.**

### Diversity and equal opportunities

Bakkavor is committed to equal opportunities in all its employment practices, policies and procedures from recruitment and selection, through training and development, appraisal and promotion.

The Group will do all that it can to make sure that everyone has an equal chance to apply and be selected for jobs at Bakkavor and an equal chance to be trained and promoted when they work for the Group.

In the UK in 2017, Bakkavor refreshed its approach to diversity training, and all managers now attend a one day 'inclusion culture' workshop, and all other employees receive a shorter training session as part of their induction process.

### Training and development

Bakkavor has a long history of investing in its innovative recruitment programmes.

The Bakkavor Youth Strategy Programme targets the next generation of potential Bakkavor employees and helps raise awareness of the Group amongst young people attending schools located near Bakkavor UK factories. In 2017, the Group invested in ten strategic partnerships with schools to support industry talent growth through the Institute of Grocery Distribution ("IGD") 'Feeding Britain's Future' programme.

In addition, over 200 people in the UK are currently part of our Apprenticeship Programme which covers a broad range of training specialisms including Engineering, Manufacturing and Product Development. During the year, we expanded this programme with additional areas of specialism and increased the number of places available.

Bakkavor also continued to work closely with the National Skills Academy during the year to develop new training standards and to increase its network of training providers. The Group's commitment to training and development was recognised with the award of 'Training Programme of the Year', won in conjunction with CQM Training & Consultancy at the Food Manufacturing Excellence Awards.

Our long-running Graduate Programme provides the opportunity to learn and develop in a wide range of roles across the Group and the programme continues to give Bakkavor a vital talent pipeline for its future leaders. A number of our Senior Management originally joined the Group through this scheme and in 2017 the Group welcomed a further 18 graduates to the UK programme.

Bakkavor also continued to develop its relationship with the University of Lincoln which supports the programme through innovation workshops and projects.

Bakkavor currently has 13 graduates on its Graduate Programme to develop our business in China. The programme, which has been running successfully for several years, is a three-year programme which includes the first year in the UK to develop a strong understanding of the business, operations and best practice standards.

The Group is committed to providing appropriate training to ensure that its employees have the skills necessary to do their job. The in-house Bakkavor Training System ("BTS") enables Bakkavor to monitor compliance and plan and record training for factory site-based colleagues in the UK. In 2017, BTS was enhanced to allow Bakkavor to conduct real time assessments to improve the reliability of these results.

The Group also piloted its first e-learning module which provided online learning of the performance management process for salaried colleagues. The system will be developed further in 2018 to bring online an effective process for booking training courses. Bakkavor is very proud of its tiered approach to management and leadership training and development. The Group's personal development programme for senior business leaders 'Leading for Success' was extended to approximately 35 colleagues across the Group during the year. In addition, the Group's 'Recipes for Success' programme continued to run for functional managers and was enhanced during the year with further online support resources.

Bakkavor continues to support its people through local initiatives and launched a UK-wide Employee Assistance Programme ("EAP") in 2017. The system provides support in a range of ways including webinars and access to articles, promotional campaigns and tools on topics such as financial budgeting, wellbeing assessments and confidential counselling services.

# CORPORATE RESPONSIBILITY CONTINUED

## Employee engagement

Employee engagement is important to our operations and the way we do business.

We measure our engagement levels through a Group-wide Employee Engagement Survey conducted every two years. In the intervening year, Bakkavor holds a Pulse Survey, which represents the views of around 20% of employees selected at random.

In 2017, the Employment Engagement score from the Pulse Survey improved from 29% to 31%. The Group recognises that whilst this is a small improvement versus the prior year, Bakkavor will continue to actively review factory site based initiatives targeted at improving workplace engagement.

**Workplace recruitment, retention and development priorities for 2018 are:**

- To increase awareness of apprenticeship programmes in the UK and internationally
- To continue to develop internal talent and succession plans to support business growth
- To further develop a centralised resourcing model to support business growth

## Employee health and safety

Bakkavor promotes a proactive safety awareness and accident prevention culture by empowering employees to do the right thing, to raise risk awareness and to actively support solutions to improve the Group's health and safety performance.

The Group's health and safety culture is based on strong governance processes and is driven from the Group Board. Bakkavor has health and safety teams in place that define standards and monitor compliance with the Group's systems for ensuring workplace health and safety. These systems are risk-based and are implemented through the Group's Health and Safety Management System to ensure compliance with relevant legal responsibilities.

Systems include comprehensive compliance audits carried out by qualified experts, performance monitoring and reporting, and a well-established process for capturing and sharing good practice and learnings.

Bakkavor recognises excellence in safe ways of working through Group-wide award and recognition programmes. During the year, the Group hosted its annual GEF and part of the event's agenda was dedicated to communicating safety messages and sharing best practice initiatives. The GEF also included the Bakkavor Group Responsibility Awards ceremony which recognised health and safety activities and initiatives carried out across sites in the UK during the year. The main award this year was to our fresh cut salads site at Bourne for the design and implementation of a conveyor feed system to reduce handling and improve maintenance processes.

Our commitment to ensuring a safe working environment for everyone on our sites was recognised with four awards from the Royal Society for the Prevention of Accidents in 2017.

Particular focus during the year was given to reducing risk associated with workplace transport, raising awareness of machinery safety and further supporting and communicating the Group's accident prevention culture across factory sites.

For example, the Group focused on areas where moving vehicles are present and helped prevent related accidents in yards by segregating areas and prohibiting access. Bakkavor also reinforced its site rules and management processes around visiting drivers and driver standards.

To help prevent machinery accidents, 248 employees undertook Machinery Safety Workshops in the year.

In 2017, the total number of accidents in the UK business was 1,864, a 9% improvement on the prior year. The total number of accidents resulting in more than seven days of lost time was 66, an improvement of 4% versus the prior year.

The number of major accidents recorded in the UK business was seven, the same as the prior year, and a 77% outperformance against the HSE industry average.

**Workplace health and safety priorities for 2018 are:**

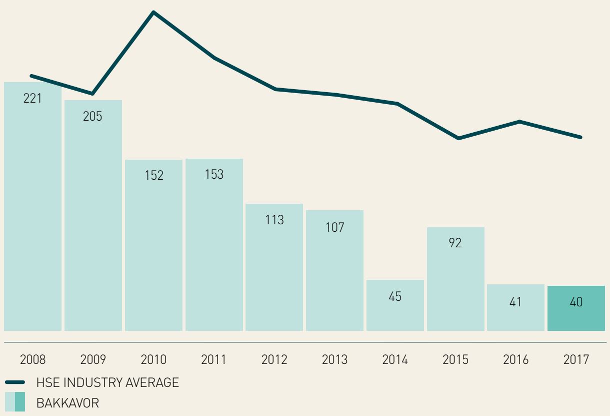
- To continue to drive our governance process to identify risks and risk reduction
- To foster and embed a positive approach to workplace health and safety across the Group
- To further develop training and risk awareness packages across factory sites

### Workplace accidents data for the UK

| | 2017 | 2016 |
|---|---|---|
| Major* accidents per 100k employees | 40 | 41 |
| >7 days lost-time accidents per 100k employees | 380 | 406 |
| Total accidents per 100k employees | 10,745 | 12,089 |

* Number of 'major' accidents as defined by the Health and Safety Executive.

### Major accidents in the UK per 100,000 employees versus the HSE industry average




### Workplace data

The Group employs 19,593 employees in total. Approximately 98% of employees are considered permanent.

### Employees by location

| | 2017 | 2016 |
|---|---|---|
| United Kingdom | 17,348 | 17,007 |
| US | 595 | 450 |
| China | 1,628 | 1,468 |
| Continental Europe | 22 | 20 |
| **Total number of employees** | 19,593 | 18,945 |

### Employees by function

| | 2017 | 2016 |
|---|---|---|
| Production | 16,653 | 16,280 |
| Management and administration | 1,992 | 1,740 |
| Sales and distribution | 948 | 925 |
| **Total number of employees** | 19,593 | 18,945 |

At 30 December 2017, 87%, 8% and 5% of the Group's UK employees were employed in production, management & administration and sales & distribution, respectively.

In 2017, the Group reported employee turnover in the UK of 22.7%, representing an increase of 5.1% versus 2016. This is in line with average levels in the UK manufacturing sector.

Turnover includes voluntary and involuntary leavers and excludes employees on fixed term contracts and those affected by redundancy. In 2017, the average length of service of employees in production was six years, while that of employees in management and administration was eight years.

### Employees by gender

| | UK | International |
|---|---|---|
| Female | 7,116 | 972 |
| Male | 10,232 | 1,273 |
| **Total number of employees** | 17,348 | 2,245 |

### Senior management by gender

| | Group Board and Management Board |
|---|---|
| Female | 2 |
| Male | 10 |
| **Total** | 12 |

The Bakkavor UK Gender Pay Report 2017 is available on the Group website as part of its annual requirement as a company with more than 250 employees. Bakkavor will publish its UK Gender Pay Report 2018 in its 2018 Annual Report and on its website in due course, and is committed to advancing and raising the profile of gender equality across the Group.

# CORPORATE RESPONSIBILITY CONTINUED

## COMMUNITY

**We aim to support the communities in which we work, giving opportunities to support those causes and projects that are important to our people.**

The Group's chosen charities for the year were The Prince's Trust and The Prince's Countryside Fund.

2017 was the third year of our partnership with The Prince's Trust. Our investment and commitment have enabled the Trust to support many young people. For example, through the 'World of Work' tours, we have helped raise the skill levels and aspirations of many young lives. In addition, a team of Bakkavor employees completed the 'Palace to Palace' bike ride during the year to raise funds for The Prince's Trust.

During the year, colleagues on the Bakkavor Graduate Programme raised funds for The Prince's Countryside Fund through an 'Art of Food' photography competition and art auction and participation in the Three Peaks 24-mile challenge.

### Supporting local causes

As part of being a responsible business, the Group encourages employees at its factory sites to select and support the local causes and initiatives that matter most to them. This process is initiated via local SEFs and supported via the annual GEF which celebrates the actions local teams have undertaken during the year.

Initiatives included the annual 'Bakkavor Fun Weekend' held in Spalding in July. This year, over £30,000 was donated to local charities including Lincolnshire and Nottingham Air Ambulance, Spalding Air Cadets, Spalding Town Husbands and Action Medical Research.

Other local community events and fundraisings include Sutton Bridge site's Christmas present wrapping event, a healthy eating school jamboree at Tilmanstone site, and Caledonian site's support of the Bo'ness Fair Festival.

In addition, the Bakkavor bread team supported its local community as lead sponsor of the Whitchurch Food & Drink Festival and the Live Cookery Theatre in Cheshire. As part of their involvement in the community event, they also raised funds for the Wingate Special Children's Trust in Crewe through proceeds from their bakery stand.

In the US, Bakkavor has donated surplus food to the Lives Transformed Mission for the past six years. Approximately 100 pounds of food per week is donated, which is distributed to various local organisations including a women's shelter, a half-way house for men, Open Arms Ministry, the Community Kitchen and Meals on Wheels. A team from the Charlotte factory site also donated toys for a local family shelter in the Charlotte area.

## CHAIRMAN'S LETTER ON CORPORATE GOVERNANCE

# COMMITTED TO THE HIGHEST STANDARDS OF CORPORATE GOVERNANCE

**DEAR SHAREHOLDER**

In our first Annual Report as a public company, I am delighted to take the opportunity to make a statement on Bakkavor's approach to corporate governance.

The Group Board is committed to the highest standards of corporate governance, and recognises that good governance is critical in building a successful business that is sustainable for the longer term. 2017 was a progressive year for Bakkavor in terms of its governance structures, as it transitioned to public ownership. In preparation for Bakkavor's IPO and Admission to the London Stock Exchange, the Group Board established a Nomination Committee and a Remuneration Committee and took steps to develop and enhance its existing Audit Committee. These steps were intended to ensure Bakkavor is in line with established best practice for Listed Companies, as set out in the UK Corporate Governance Code (the "Governance Code"), published in April 2016 by the Financial Reporting Council ("FRC").

In anticipation of the IPO, a new legal entity, Bakkavor Group plc, was established as the overall parent company of the Group. Agust Gudmundsson (Chief Executive Officer) and Robert Berlin (Non-executive Director) became Directors of Bakkavor Group plc on 28 September 2017, and the following became Directors on 20 October 2017:

- I was appointed as Independent Non-executive Chairman
- Peter Gates was appointed as Chief Financial Officer and Director
- Lydur Gudmundsson was appointed as Non-executive Director
- Todd Krasnow was appointed as Independent Non-executive Director
- Denis Hennequin was appointed as Independent Non-executive Director
- Sue Clark was appointed as Independent Non-executive Director

The Governance Code recommends that at least half the board of directors of a UK listed company, excluding the Chairman, should comprise Non-executive Directors determined by the Board to be independent. I am delighted that Jane Lodge, an Independent Non-executive Director, was appointed to the Group Board with effect from 3 April 2018, and so Bakkavor is now fully compliant with this Governance Code provision.

As part of the preparation for the IPO, we worked with our professional advisers to review Bakkavor's governance policies and formalise its arrangements for the division of responsibilities between Agust Gudmundsson as Chief Executive Officer and myself as Chairman. We refreshed the matters reserved for the decision of the Group Board and adopted additional governance policies covering such areas as share dealing restrictions for Directors and Senior Executives, and the treatment of Inside Information.

The report on Corporate Governance sets out the processes which ensure that we comply with all applicable laws and regulations. It also outlines how we will create the necessary internal culture to enable us to meet the requirements of our shareholders and wider stakeholders to deliver long-term sustainable growth. The Group Board is committed to maintaining an open dialogue with shareholders and welcomes the opportunity to meet with those who are able to attend our Annual General Meeting ("AGM") on 23 May 2018.

The Group Board believes the culture within which the business operates is an important part of its success and has a significant impact on the success of our governance arrangements.

It has been an evolutionary year and we have made good progress enhancing Bakkavor's governance. I am sure this will help continue to drive performance and enable us to stay aligned with best practice over the coming years.

I greatly value the diverse and complementary range of skills and experience of my fellow Board members. Our discussion and debate takes place within an environment of openness, mutual trust and respect, and I would like to extend my thanks to all Board members for their valuable support and commitment.

I look forward to reporting to you next year on how our governance arrangements have continued to evolve.

**Simon Burke**
Chairman

9 April 2018

# GROUP BOARD

## WE BELIEVE IN DOING THE RIGHT THING, IN THE RIGHT WAY

**PETER GATES**
**Chief Financial Officer**

Peter joined Bakkavor in 2010 as Chief Financial Officer and was appointed to the Group Board in 2017. Prior to joining Bakkavor, he was Group Treasurer at Avis Europe plc. As a chartered accountant, Peter has responsibility for Finance as well as Treasury, Tax, Legal, Communications and Information Technology. Peter holds a Bachelor of Science from Southampton University.

**TODD KRASNOW**
**Independent Non-executive Director**

NC RC

Todd has served as a Non-executive Director of Bakkavor since January 2016. He is a senior executive at a number of multi-national companies with extensive experience in the retail and consumer services sectors. In addition, Todd currently serves on the boards of Carbonite, Tileshop, C&S Wholesale Grocers and Ecentria, Inc. He has also served on the boards of a number of companies in the past, including On Force, Inc. and Piedmont Limited. He holds a bachelor's degree from Cornell University and an MBA from Harvard Business School.

**AGUST GUDMUNDSSON**
**Chief Executive Officer**

Agust is one of the founders of Bakkavor and has served as Chief Executive Officer of Bakkavor since May 2006. He served as Executive Chairman of Bakkavor from 1986, the year the Bakkavor Group was founded, through to May 2006. Agust received his education from the College of Ármúli in Reykjavik, Iceland.

**SIMON BURKE**
**Independent Non-executive Chairman**

AC

Simon has served as a Non-executive Director of Bakkavor since February 2017. He is a chartered accountant with over 30 years' experience in the retail and food sectors. Following a decade in financial and advisory roles, he was appointed CEO of Virgin Retail UK in 1988, and following a turnaround of that business, held increasingly senior roles until appointed CEO of the global Virgin Entertainment Group in 1996. In 1999, Simon was appointed Chairman and Chief Executive of Hamleys plc where he completed a successful restructuring and subsequent sale of the company in 2003. Simon then specialised in value creation roles in both quoted companies and private equity backed businesses. He has chaired many well-known consumer businesses, including Majestic Wine, Mitchells & Butlers, Bathstore.com, and Superquinn. He is currently Senior Independent Director of the British Broadcasting Corporation and a Non-executive Director of the Co-operative Group Limited. He is also Chairman of The Light Cinemas (Holdings) Limited and Blue Diamond Limited.

## DENIS HENNEQUIN
**Independent Non-executive Director**

AC NC RC

Denis has served as a Non-executive Director of Bakkavor since February 2017. He has extensive leadership experience within the retail sector, spending the majority of his career with the McDonald's Corporation in a variety of senior financial and operational roles before becoming President and Chief Executive Officer of McDonald's Europe, where he was responsible for changing the image and concept and securing its market-leading position. Denis was appointed Chairman and Chief Executive Officer of Accor in 2011 where he was responsible for an estate spread across over 90 countries. He left Accor in 2013 to pursue an advisory and portfolio career. He is currently a Non-executive Director of Eurostar International Limited and SSP Group plc.

## SUE CLARK
**Independent Non-executive Director**

AC NC RC

Sue has served as a Non-executive Director of Bakkavor since October 2017. She was formerly Managing Director of SABMiller Europe from 2012 to 2016, where she returned the region to growth through innovation and premiumisation of its well-loved consumer brands. Sue was a member of the SABMiller executive team from 2003 that built the business into a top five FTSE company and was involved in major corporate transactions and business transformations, particularly in the Americas, Africa and Asia. She is currently a Non-executive Director on the boards of Akzo Nobel, Tulchan Communications LLP and Britvic plc where she also chairs the Remuneration Committee. Sue holds a Master of Business Administration from Heriot Watt University and a Bachelor of Science from Manchester University.

## ROBERT BERLIN
**Non-executive Director**

NC

Robert is currently a Non-executive Director of Bakkavor and has been serving since the Baupost Group made an investment into the Bakkavor Group in January 2016. He is a senior investment professional with wide-ranging experience, including foodservice and consumer companies, having held a number of strategic roles within the tech and financial sectors. Robert is currently a Managing Director of Baupost and received his education from the Washington & Lee University in Virginia, United States.

## LYDUR GUDMUNDSSON
**Non-executive Director**

NC

Lydur is one of the founders of Bakkavor. He served as Chief Executive Officer from 1986 to 2006; Executive Chairman from 2006 to 2010; and Chairman of the Board of Directors of the Bakkavor Group from 2010 to 2017. Lydur received his education from the Commercial College of Iceland.

**Board Committees**

**Nomination Committee** NC
Report on page 47

**Audit and Risk Committee** AC
Report on page 48

**Remuneration Committee** RC
Report on page 53

# MANAGEMENT BOARD

**AGUST GUDMUNDSSON**
**Chief Executive Officer**
See Group Board profile on page 38

**PETER GATES**
**Chief Financial Officer**
See Group Board profile on page 38

**IVAN CLINGAN**
**President and Chief Executive Officer, Bakkavor USA**
Ivan joined Bakkavor in 1990 from Nestlé UK. During his career at Bakkavor he has held a number of operational and general management roles and was appointed as head of Bakkavor's US operations in 2016. Ivan has overall responsibility for the US operations.

**MIKE EDWARDS**
**Chief Operating Officer, UK**
Mike joined Bakkavor in 2001 from Heinz. During his career at Bakkavor he has held a number of senior roles and was appointed Chief Operating Officer in 2014. Mike has responsibility for UK operations, including technical development.

**PIPPA GREENSLADE**
**Group Human Resources Director**
Pippa joined Bakkavor in 2013 from the British Council, where she was Global HR Director. Prior to that, she spent 23 years with Cadbury Schweppes in a variety of senior HR roles in the UK, Singapore, US and Russia. Pippa has global responsibility for HR.

**EINAR GUSTAFSSON**
**Managing Director, Bakkavor China**
Einar joined Bakkavor in 2005 from Deloitte LLP. During his career at Bakkavor, Einar has held responsibility for the overall management and development of Bakkavor's operations in mainland China and Hong Kong.

**Pictured from left to right:** Ivan Clingan, Mike Edwards, Peter Gates, Agust Gudmundsson, Pippa Greenslade, Einar Gustafsson

# CORPORATE GOVERNANCE COMPLIANCE STATEMENT

## CORPORATE GOVERNANCE OVERVIEW

This report describes Bakkavor's corporate governance structures and procedures and the work of the Group Board, its Committees and the Management Board, and how Bakkavor has applied the main principles of the Governance Code following its IPO.

The principal corporate governance rules applying to Bakkavor (as a UK company listed on the London Stock Exchange ("LSE")) for the year ended 30 December 2017 are contained in the UK Financial Conduct Authority ("FCA") Listing Rules, and the Governance Code as updated and published by the FRC in April 2016.

A copy of the Governance Code can be downloaded from the corporate governance pages of the FRC's website (https://www.frc.org.uk/directors/corporate-governance-and-stewardship/uk-corporate-governance-code).

The Group Board considers that Bakkavor has been compliant with the Governance Code provisions except as noted opposite:

| **Provision** | **Explanation** |
|---|---|
| B.1.2 — at least half the Board, excluding the Chairman, should comprise Non-executive Directors determined by the Board to be independent. | Bakkavor's IPO was completed in November 2017 and the Group was unable to achieve full compliance at this time. Jane Lodge, an Independent Non-executive Director, was appointed to the Group Board with effect from 3 April 2018, and the Group Board is now fully compliant with this Governance Code provision. |
| B.4.2 — the review of Non-executive Directors' training development requirements. | Given the short period between Bakkavor's IPO and the financial year end, the Chairman did not consider it appropriate to review and agree with each Director their training and development needs. The Chairman, with the support of the General Counsel and Company Secretary, will ensure the development and ongoing training needs of the Group Board are reviewed and agreed at least annually. |
| B.6.1 and B.6.3 — the Board has not carried out a performance evaluation and the Non-executive Directors, led by the Senior Independent Director, have not carried out a performance evaluation of the Chairman. | Given the short period between Bakkavor's IPO and the financial year end, the Group Board did not consider it appropriate to carry out a performance evaluation process prior to the publication of the Annual Report. The Group Board believes that a meaningful evaluation can only take place after it has been working together for a reasonable time, and therefore an agreed approach to evaluation will be developed and implemented before the end of the financial year 2018 and annually thereafter. This will include an externally facilitated evaluation process at least every three years. |
| C.3.1 — in smaller companies, the Company Chairman may be a member of, but not chair, the Audit and Risk Committee in addition to the Independent Non-executive Directors, provided he or she was considered independent on appointment as Chairman. | Bakkavor's IPO was completed in November 2017 and the Group was unable to meet this requirement at that time. The Audit and Risk Committee was chaired by the Company Chairman, Simon Burke. To ensure full compliance with this Governance Code provision, Jane Lodge, an Independent Non-executive Director was appointed to the Group Board with effect from 3 April 2018 and will assume the Chair of the Audit and Risk Committee. At the same time, Simon Burke will step down from the Audit and Risk Committee. |

# CORPORATE GOVERNANCE REPORT

## LEADERSHIP

**"Every company should be headed by an effective Board which is collectively responsible for the long-term success of the company."**

### The role of the Group Board and Management Board

The Group Board provides guidance and entrepreneurial leadership of Bakkavor by setting the strategic direction of the Group and overseeing management's implementation of the strategy.

It is collectively responsible for the long-term success of the Group through the creation and delivery of sustainable shareholder value. In exercising this responsibility, the Group Board takes into account the needs of all relevant stakeholders.

It is accountable for ensuring that, as a collective body, it has the appropriate skills, knowledge and experience to perform its role effectively. The Group Board is provided with timely and comprehensive information to enable it to discharge its responsibilities, to encourage strategic debate and to facilitate robust, informed and timely decision-making.

The Group Board is supported by the Management Board, which implements the strategic objectives set by the Group Board, and 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.

In anticipation of Bakkavor's IPO, the Schedule of Matters Reserved for the Group Board was reviewed and updated along with the delegated authority framework to ensure that unusual or material transactions are brought to the Group Board for approval. Decisions reserved for the Group Board include approval of strategic plans and annual budgets, acquisitions, audited accounts and the appointment of additional Directors.

The Schedule of Matters Reserved for the Group Board is available for review on the Company's website:

https://www.bakkavor.com/~/media/Files/B/Bakkavor-V3/PDF/corporate-governance/schedule-of-matters-reserved-for-the-board.pdf

### Group Board composition

The Group Board currently comprises a Non-executive Chairman who was independent on appointment, two Executive Directors, two Non-independent Non-executive Directors and four Independent Non-executive Directors, supported by the General Counsel and Company Secretary and the Management Board.

The Group Board operates a clear division of responsibilities between the Chairman and the Chief Executive Officer.

#### Chairman

The Chairman, Simon Burke, is responsible for leading the Group Board and creating the right conditions, including its membership and that of its Committees, to ensure the Group Board's effectiveness in all aspects of its role.

The Chairman sets the Group Board's agenda, in consultation with the Chief Executive Officer and the General Counsel and Company Secretary, taking full account of Group Board members' issues and concerns and the need to allow sufficient time for robust and constructive discussion and challenge. He is responsible for encouraging and facilitating active engagement by all Directors, drawing on their skills, knowledge and experience.

The Chairman is also responsible for promoting effective communication between the Group Board, Senior Management, shareholders and other major stakeholders.

The Chairman has a close working relationship with the Chief Executive Officer and the General Counsel and Company Secretary to ensure that the strategies and actions agreed by the Group Board are effectively implemented. At least annually, the Chairman meets with the Non-executive Directors without the Executive Directors present to discuss, amongst other matters, the Executive Directors, the Group Board as a whole, the Committees and the interaction between the Executive and Non-executive Directors.

#### Chief Executive Officer

The Chief Executive Officer, Agust Gudmundsson, has specific responsibility for recommending the Group's strategy to the Group Board and for implementing agreed strategy once approved. In undertaking such responsibilities, the Chief Executive Officer takes advice from and is provided with support by the Management Board and Group Board colleagues and his Senior Management team.

Together with the Chief Financial Officer, the Chief Executive Officer monitors the Group's operating and financial results and directs the day-to-day business of the Group. The Chief Executive Officer is also responsible for recruitment and development of the Group's Senior Management team below Group Board level.

#### Chief Financial Officer

The Chief Financial Officer, Peter Gates, is responsible for the financial reporting of the Group, for monitoring the Group's operating and financial results and for management of the Group's internal financial risk management and financial control systems. He supports the Chief Executive Officer in implementing the Group's strategy and in relation to the financial and operational performance of the Group.

#### Management Board

The Management Board implements the strategic objectives set by the Group Board and agrees on performance criteria, and delegates to 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 responsibilities delegated to the Management Board cover the following areas:

- Preparing strategic proposals, corporate plans, and budgets
- Executing the strategy agreed upon by the Group Board

- Executing actions in relation to key Group Board decisions such as investments, mergers, and acquisitions
- Opening bank accounts and authorising financial payments
- Signing of contracts
- Signing of regulatory documents
- External communication
- Staff recruitment and remuneration
- Establishing a system of internal control and risk management
- Monitoring performance and evaluation of health and safety

### Non-executive Directors

The role of the Non-executive Directors is to offer guidance and advice to the Group Board as a whole and the Executive Directors in particular, drawing on their wide experience across many industries. They also provide scrutiny, constructive challenge and oversight of the Executive Directors and Senior Management.

### Senior Independent Director

Denis Hennequin is the Senior Independent Non-executive Director and in this capacity he acts as a sounding board for the Chairman. He serves as a trusted intermediary for the other Directors when necessary. He is also available to shareholders if they are unable to resolve their concerns through communication with the Chairman, Chief Executive Officer or other Executive Directors, or when shareholders prefer to speak directly to him. He is responsible for evaluating the performance of the Chairman on behalf of the other Directors.

### General Counsel and Company Secretary

The General Counsel and Company Secretary, Simon Witham, supports and works closely with the Chairman, the Chief Executive Officer and the Group Board Committee Chairs in setting agendas for meetings of the Group Board and its Committees. He supports the accurate, timely and clear information flow to and from the Group Board and the Group Board Committees, and between Directors and Senior Management. The General Counsel and Company Secretary also advises the Group Board on corporate governance issues and Group Board procedures and is responsible for administering Bakkavor's Share Dealing Code and the AGM.

## How the Group Board operates

Prior to the IPO, Bakkavor Group Limited was the parent company of the Group. During the year, the Board of Bakkavor Group Limited met four times as scheduled, and then a further three times to discuss important ad hoc emerging issues. The Management Board of Bakkavor Group Limited met 10 times.

In preparation for the IPO, Bakkavor's corporate structure was reorganised. Bakkavor Group Limited was re-named Bakkavor Holdings Limited, and a new legal entity, Bakkavor Group plc, was established as the parent company of the Group. The first Group Board meeting of Bakkavor Group plc was held on 20 October 2017, and following the IPO, the Group Board met again on 29 November 2017.

In 2018, the Group Board plans to hold eight regular meetings including an annual strategy day to review strategic options open to the Group in the context of the economic and regulatory environment. The Management Board members below Group Board level will attend meetings as required to present and discuss matters relating to their business areas and functions, and the Management Board will also meet separately throughout the year on a regular basis.

The Group Board will additionally meet when necessary between scheduled Group Board meetings to discuss important ad hoc emerging issues that require consideration.

Each Director commits to dedicating an appropriate amount of time to their duties during the financial year, and it is expected that the Non-executive Directors will meet the time commitment reasonably expected of them, pursuant to their letters of appointment.

Where Directors are unable to attend meetings, they are encouraged to give the Chairman their views in advance on the matters to be discussed.

### Attendance at Board meetings

The number of full scheduled Group Board meetings attended by each Director during the year, including the Group Board strategy day, is set out below:

| Board | Scheduled meeting eligible to attend | Scheduled meetings attended |
|---|---|---|
| **Bakkavor Holdings Limited (formerly Bakkavor Group Limited)** | | |
| **Non-executive Directors** | | |
| Robert Berlin | 7 | 7 |
| Simon Burke | 7 | 7 |
| Denis Hennequin | 7 | 7 |
| Todd Krasnow | 7 | 6 |
| **Executive Directors** | | |
| Agust Gudmundsson | 7 | 7 |
| Lydur Gudmundsson | 7 | 7 |
| **Bakkavor Group plc** | | |
| **Chairman** | | |
| Simon Burke | 2 | 2 |
| **Non-executive Directors** | | |
| Robert Berlin | 2 | 2 |
| Sue Clark | 2 | 2 |
| Lydur Gudmundsson | 2 | 2 |
| Denis Hennequin | 2 | 2 |
| Todd Krasnow | 2 | 1 |
| **Executive Directors** | | |
| Agust Gudmundsson | 2 | 2 |
| Peter Gates | 2 | 2 |

# CORPORATE GOVERNANCE REPORT CONTINUED

### Group Board activities during the year

The Group Board meeting agendas during the year included business across the following key areas pursuant to the Schedule of Matters Reserved for the Group Board:

#### IPO

- Discussed and agreed all matters relating to the preparation for and finalisation of the IPO and reviewed the overall process post-IPO.

#### Strategy

- Discussed and agreed the forward-looking strategic priorities for the Group.

#### Business, operational highlights and current trading

- Received reports from the Chief Executive Officer and Chief Financial Officer and business updates on performance in the UK, China and the US, including relevant significant operational issues and challenges.

#### Financial performance

- Reviewed the financial performance of the Group and approved all financial results announcements and the Annual Report.

#### Forecast and budget

- Received updates on performance against the prior year and approved the 2018 budget.

#### Governance and risk

- Discussed the Group's corporate governance processes particularly in light of the preparation for the IPO, and the shape and content of future Group Board meetings. Introduced a revised Code of Conduct and policies to ensure that Bakkavor's obligations to its investors and other stakeholders are clear, understood and observed. Discussed the risks faced by the Group during the financial year, and potential risk profiles looking ahead to 2018.

#### People

- Received reports from the Group HR Director on key HR issues and discussed matters including turnover rates, Brexit impact, succession planning and people retention strategies.

## GROUP BOARD COMMITTEES

The Group Board has established three Board Committees, comprising only Non-executive Directors. Each Committee has agreed Terms of Reference which were approved by the Group Board, and are available on our website: https://www.bakkavor.com/investors/governance

These Committees assist with the detailed oversight of Bakkavor's financial reporting, risk management and internal and external audit work, establishing the Remuneration Policy and overseeing its implementation, and establishing appropriate succession and contingency plans for the Directors and Senior Managers, including undertaking appropriate searches for new Directors as required.

### Audit and Risk Committee

The Audit and Risk Committee's role is to assist the Group Board with the discharge of its responsibilities in relation to financial reporting, including reviewing the Group's annual and half-year Financial Statements and accounting policies, risk management and internal and external audits and controls. It reviews and monitors the scope of the annual audit and the extent of the non-audit work undertaken by External Auditors, advises on the appointment of External Auditors and reviews the effectiveness of the Internal Audit and risk management, internal control and risk management, whistleblowing and fraud systems in place within the Group. The Audit and Risk Committee will normally meet not less than four times a year.

| | |
|---|---|
| Chair | Simon Burke (interim Chair) |
| Members | Sue Clark<br>Denis Hennequin |
| Supported by: | Simon Witham, General Counsel and Company Secretary |

### Nomination Committee

The Nomination Committee assists the Group Board in reviewing the structure, size and composition of the Group Board. It is also responsible for reviewing succession plans for the Directors, including the Chairman and Chief Executive Officer and other Senior Executives. The Nomination Committee will normally meet not less than twice a year.

| | | |
|---|---|---|
| Chair | Todd Krasnow | |
| Members | Robert Berlin<br>Sue Clark | Denis Hennequin<br>Lydur Gudmundsson |
| Supported by: | Simon Witham, General Counsel and Company Secretary | |

### Remuneration Committee

The Remuneration Committee recommends the Group's policy on executive remuneration, determines the levels of remuneration for Executive Directors and the Chairman and other Senior Executives and prepares an annual remuneration report for approval by the shareholders at the AGM. The Remuneration Committee will normally meet not less than three times a year.

| | |
|---|---|
| Chair | Denis Hennequin |
| Members | Sue Clark<br>Todd Krasnow |
| Supported by: | Pippa Greenslade, Group HR Director |

The Chairman of each Committee reports to the Group Board on the matters discussed at Committee meetings, and the minutes of the Committee meetings are made available to all Directors. Reports from each Group Board Committee Chair, including information on the Committees' composition and activities in the year, can be found in the sections relating to each Committee within this report.

## EFFECTIVENESS

**"The Board and its committees should have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively."**

### Group Board composition

It is a core feature of good corporate governance that the Group Board and its Committees have an appropriate balance of skills, experience, independence and knowledge to enable the effective discharge of their duties and responsibilities. Part of the role of the Chairman and the Nomination Committee is to keep the balance of skills and expertise on the Group Board and its Committees under review and make recommendations to the Group Board where changes are appropriate to maintain that balance. The Group Board considers that the range of skills, experience and background of each of the Directors is sufficiently relevant and complementary to allow appropriate oversight, challenge and review of Bakkavor's progress in achieving its corporate goals.

A summary of the experience and background of each Director is set out on pages 38 to 39.

It is Bakkavor's policy, in line with the Governance Code, that proposed appointments to the Group Board follow an open and transparent recruitment process and that candidates are assessed on merit against objective criteria.

### Diversity

The Directors recognise the importance of diversity and understand the significant benefits that come with having a diverse Group Board. More information on this and the Group's diversity statement can be found in the report of the Nomination Committee on page 47.

### Director independence

There is an appropriate combination of Executive Directors and Non-executive Directors such that no individual or small group of individuals can dominate the Group Board's decision-making.

Jane Lodge, an Independent Non-executive Director, was appointed to the Group Board with effect from 3 April 2018. Following Jane's appointment, the Group Board is now fully compliant with this Governance Code, which requires that at least half of the Group Board, excluding the Chairman, should comprise Non-executive Directors who are determined by the Group Board to be independent.

The independence of the Non-executive Directors will be considered by the Group Board and reviewed on an annual basis, as part of the Group Board effectiveness review. In determining whether they remain independent, the Group Board will consider factors such as length of tenure and relationships or circumstances which are likely to affect or appear to affect the Director's judgement. As part of the IPO process, the Group Board reviewed and reaffirmed that it considers each of the Independent Non-executive Directors to be independent in character and judgement and that there are no relationships that might prejudice this independence.

### Conflicts of interest

Directors have a statutory duty to avoid situations in which they may have interests that conflict with those of the Company, unless that conflict is first authorised by the Group Board. Directors are required to disclose both the nature and extent of any potential or actual conflicts with the interests of the Company.

In accordance with the Companies Act 2006, the Company's Articles of Association allow the Group Board to authorise potential conflicts that may arise, and to impose such conditions or limitations as it sees fit. During the year, any potential conflicts were considered and assessed by the Group Board and approved where appropriate.

### Inside information and securities dealings

As part of the IPO process, Bakkavor adopted a formal Inside Information Disclosure Policy, a Group Securities Dealing Code, and a Persons Discharging Managerial Responsibilities ("PDMR") Securities Dealing Code setting out dealing restrictions and procedures to ensure PDMRs and other relevant Senior Managers seek clearance for dealing in Bakkavor shares.

### Succession planning and appointments to the Group Board

Succession planning will ensure that Executives with the necessary skills, knowledge and expertise are in place to deliver Bakkavor's strategy, and that the Group Board has the right balance of individuals to be able to discharge its responsibilities. The Group Board will regularly review its composition.

### Induction

Following appointment, each Director will receive a comprehensive and formal induction to familiarise them with their duties and Bakkavor's business operations, risk and governance arrangements. The induction programme, which is co-ordinated by the Group HR Director, includes briefings on industry and regulatory matters relating to Bakkavor, as well as meetings with Senior Management in key areas of the business.

### Ongoing professional development

In order to facilitate greater awareness and understanding of Bakkavor's business and the environment in which it operates, all Directors are given regular updates on changes and developments in the business. Directors will continually update and refresh their skills and knowledge, and independent professional advice is provided when required, at Bakkavor's expense.

In preparation for the IPO, the Directors received advice from Freshfields Bruckhaus Deringer LLP on their duties as Directors of a listed company, and their ongoing obligations under the FCA's Listing Rules and Disclosure Guidance and Transparency Rules.

### Annual re-election of the Group Board

In compliance with the Governance Code, all Directors will retire and offer themselves for re-election or re-appointment as appropriate at each year's AGM. At our first AGM, to be held on 23 May 2018, each Director, regardless of their date of appointment or length of service, will offer himself or herself for re-election as a Director.

### Group Board evaluation

It is intended that an evaluation of the effectiveness of the Group Board will be conducted in 2018.

# CORPORATE GOVERNANCE REPORT CONTINUED

## ACCOUNTABILITY

**"The Board should present a fair, balanced and understandable assessment of the company's position and prospects."**

### Financial and business reporting

The Strategic Report from page 4 describes the business model and strategy and how Bakkavor generates and preserves value over the long term and delivers its strategic objectives.

A Statement of Directors' Responsibilities in respect of the Financial Statements is set out on page 75 and a statement regarding the use of the going concern basis in preparing these Financial Statements is provided in the Directors' Report on page 74.

### Risk management and internal control

The Group Board has responsibility for ensuring the maintenance of the Group's risk management and internal control systems and reviewing them annually.

The framework under which risk is managed in the business is supported by a system of internal controls designed to embed the effective management of the key business risks throughout the Group. The risk management and internal controls systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Through reports from the Audit and Risk Committee, the Group Board regularly reviews and monitors the Group's risk management and internal controls systems and the effectiveness with which it manages the principal risks faced by the Group.

The Directors confirm that the Group Board has carried out a robust assessment of the key risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity. The risks to which the Group is exposed and the framework under which risk is managed, and its system of internal controls, is outlined in the 'Risk Management' section on pages 21 to 25 and in the 'Viability Statement' on page 74.

### Internal controls over financial reporting

The Group's financial reporting process has been designed to provide reasonable assurance regarding the reliability of the financial reporting and preparation of Financial Statements, including Consolidated Financial Statements, for external purposes in accordance with the International Financial Reporting Standards ("IFRS"). The annual review of the effectiveness of the Group's system of internal controls included reviews of systems and controls relating to the financial reporting process.

Internal controls over financial reporting include procedures and policies that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions of the Group
- Provide reasonable assurance that transactions are recorded as necessary to permit the preparation of Financial Statements and that receipts and expenditures are being made only in accordance with authorisations of management and respective Directors
- Provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use or disposal of Group assets that could have a material effect on the Group's financial and operational controls and compliance with laws and regulations

### Remuneration

The responsibility for determining remuneration arrangements for the Chairman and Executive Directors has been delegated to the Remuneration Committee. Information on the Remuneration Committee and the Directors' Remuneration Report and Remuneration Policy can be found on pages 53 to 70.

### Engagement with shareholders

It is the role of the Group Board to promote the long-term success of the Company and to ensure that its obligations to its shareholders and other stakeholders are met. Therefore, the Group gives priority to effective dialogue with shareholders and ensuring active shareholder engagement.

Throughout the year, the Chief Executive Officer, Chief Financial Officer and Head of External Affairs met with institutional and major shareholders.

The Group Board recognises the importance of maintaining good and constructive communication with the Company's shareholders, and has in place a comprehensive programme to facilitate this each year.

The Annual Report is an important medium for communicating with shareholders, setting out detailed reviews of the business and its future developments in the Strategic Report section.

In order to ensure that the members of the Group Board develop an understanding of the views of shareholders, there is regular dialogue with institutional investors and shareholders, presentations by management and investor roadshows around the time of the Group's year-end and half-year results announcements. Bakkavor also responds to ad hoc requests from shareholders on a regular basis.

The Chairman, the Senior Independent Director, in his capacity as Chairman of the Remuneration Committee, and the Executive Directors will hold meetings with Bakkavor's largest institutional shareholders and market analysts to discuss governance developments (including the Remuneration Policy), business strategy and financial performance.

### AGM

Bakkavor's AGM provides the Group Board with the opportunity to communicate with private and institutional investors. The Chairman aims to ensure that all the Directors, including the Group Board Committee Chairs, are available at the AGM to answer questions. Bakkavor's first AGM will be held on 23 May 2018.

## REPORT OF THE NOMINATION COMMITTEE

### Chairman's overview

I am pleased to take this opportunity as Chairman of the Nomination Committee to outline the objectives and responsibilities of the Committee and its plans for the coming year.

Bakkavor's Nomination Committee was set up in October 2017 in anticipation of the IPO, and its first meeting was on 28 March 2018. It is intended that in the coming year, the Committee will monitor the balance of the Group Board to ensure that there remains an appropriate range of skills, experience and diversity and will ensure succession plans for Directors and Senior Executives are relevant and up to date.

### Committee membership

The Committee consists of Non-executive Directors:

| | | |
|---|---|---|
| Chair | Todd Krasnow | |
| Members | Robert Berlin<br>Sue Clark | Lydur Gudmundsson<br>Denis Hennequin |

The biographies of the Committee members are set out on pages 38 to 39. The Committee will discharge its responsibilities through a series of scheduled meetings during the year.

### Meetings attendance (since the IPO and for the year ended 30 December 2017)

The Nomination Committee did not meet during this period.

### Role of the Nomination Committee

The principal role and responsibilities of the Committee include:

- Reviewing the composition of the Group Board and Group Board Committees to ensure that they are appropriately balanced in terms of skills, knowledge, diversity and experience
- Ensuring that there is a formal, rigorous and transparent procedure for the appointment of new Directors
- Identifying and nominating for approval by the Group Board suitable candidates to fill Group Board vacancies as and when they arise
- Keeping under review the leadership needs of the Group, with a view to ensuring the continued ability of the organisation to compete effectively in its marketplace

The Terms of Reference of the Committee are available on Bakkavor's website: https://www.bakkavor.com/investors/governance

### Diversity statement

As a business, we are committed to maintaining a diverse workforce at all levels across the Company, and how we do this is set out in our equal opportunity policy and Code of Conduct.

The Directors recognise the importance of diversity and understand the significant benefits that come with having a diverse Board. The Group Board believes that diversity is a wider issue than gender, and includes variations in experience, skills, personal attributes and background. We have recently published our first gender pay report which identifies the areas that we will focus on.

Given the short period between Bakkavor's IPO and the financial year end, the Group has yet to formalise its diversity policy. Work on this is ongoing, and the diversity policy is expected to be in place in 2018.

We will continue to appoint on merit, based on the skills and experience required for membership of the Group Board, while giving consideration to gender and other forms of diversity when the Committee reviews the Group Board's composition. For appointments to the Group Board, Bakkavor uses executive search firms who have signed up to the voluntary code of conduct setting out the key principles of best practice in the recruitment process. These principles include a recommendation that search firms should consider gender diversity and Bakkavor insists on having both male and female candidates when drawing up longlists and shortlists of candidates.

### Nomination Committee evaluation

It is intended that an evaluation of the effectiveness of the Nomination Committee will be conducted in 2018.

**Todd Krasnow**

Chairman, Nomination Committee

9 April 2018

# CORPORATE GOVERNANCE REPORT CONTINUED

## REPORT OF THE AUDIT AND RISK COMMITTEE

### Chairman's overview

I am pleased to present the report of the Audit and Risk Committee for the year ended 30 December 2017. This report describes the Committee's responsibilities and key activities over the year.

In 2017, for the period prior to the IPO, the Bakkavor Holdings Limited (formerly Bakkavor Group Limited) Audit Committee members were Simon Burke, Robert Berlin and Todd Krasnow.

In advance of Bakkavor's IPO, a new Audit and Risk Committee was set up for Bakkavor Group plc comprised only of Independent Non-executive Directors. Its first meeting took place on 11 December 2017, at which the Committee considered the results of assurance and Internal Audit work carried out in the year, discussed strengthening Bakkavor's risk function, and considered the proposed External Audit tender.

The Audit and Risk Committee met again on 20 February 2018 and 29 March 2018 to review and discuss the progress of the audit of the Financial Statements for the year ended 30 December 2017, approve the Internal Audit plan for 2018 and consider in detail the Group's IT systems and its exposure to risks such as cyber attack and system failure. The Committee met privately with the External Auditors on each occasion to discuss any matters they wished to make the Committee aware of.

### Committee membership

| | | |
|---|---|---|
| Chair | Simon Burke (Interim) | |
| Members | Sue Clark | Denis Hennequin |

The biographies of the Committee members are set out on pages 38 to 39.

### Meetings attendance (since the IPO and for the year ended 30 December 2017)

The Bakkavor Group plc Audit and Risk Committee met on 11 December 2017.

| | Attendance |
|---|---|
| Simon Burke | 1 out of 1 |
| Sue Clark | 1 out of 1 |
| Denis Hennequin | 1 out of 1 |

The Committee will discharge its responsibilities through a series of scheduled meetings during the year, the agendas of which include risk management processes, the programme of Internal Audit and assurance work, deep dives on key financial and other risk areas, and work related to events in the financial calendar of the Company.

The Governance Code requires the inclusion in the Committee of at least one member determined by the Group Board as having recent and relevant financial experience. I am a chartered accountant with over 30 years' experience in the retail and food sectors and I am considered to fulfil this requirement.

As previously highlighted, the Governance Code states that the Chairman of the Board shall not be a member of the Committee. I have been acting as interim Audit and Risk Committee Chair, however, to ensure compliance with the Governance Code, Jane Lodge, an Independent Non-executive Director, was appointed to the Group Board with effect from 3 April 2018 and will shortly assume the Chair of the Audit and Risk Committee and, at the same time, I will step down from the Committee.

The Chief Financial Officer, Group Financial Controller, General Counsel and Company Secretary and representatives from the External Auditors and the Internal Auditors attend the Committee meetings by standing invitation. Members of Senior Management from various areas of the business attend the Committee meetings by invitation as necessary.

The Committee has four scheduled meetings a year and will additionally meet if and when required.

### Role of the Committee

The Committee's Terms of Reference are available on the investor section of the Bakkavor website.

https://www.bakkavor.com/investors/governance

The Audit and Risk Committee provides an independent overview of the effectiveness of the internal financial control systems, financial reporting processes and risk management. Its principal responsibilities are:

- Monitoring and reviewing the effectiveness of the Group's Internal Audit function and its activities
- Reviewing Bakkavor's Financial Statements, including annual and half-year results and announcements and reporting to the Group Board on significant financial reporting issues and judgements
- Monitoring and reviewing and, where appropriate, making recommendations to the Group Board on the adequacy and effectiveness of Bakkavor's internal control and risk management systems

- Reviewing in detail Bakkavor's risks and the actions taken to minimise risks, the policies in force, and the other sources of assurance upon which reliance is placed to mitigate risk
- Ensuring a robust assessment is conducted of the principal risks facing Bakkavor, including those that would threaten its business model, future performance, solvency or liquidity
- Reviewing the content of the Annual Report and advising the Group Board whether it is fair, balanced and understandable
- Recommending to the Group Board for approval by shareholders, the appointment, reappointment or removal of the External Auditor; including the agreement of the terms of engagement at the start of each audit, the audit scope and the External Audit fee
- Reviewing the effectiveness and objectivity of the External Audit and the External Auditor's independence; including consideration of fees, audit scope and terms of engagement and the provision of non-audit services
- Monitoring the effectiveness of Bakkavor's whistleblowing, anti-bribery and business ethics procedures

### How the Committee operates

To ensure the Committee discharges its responsibilities appropriately, an annual forward calendar, linked to the Committee's Terms of Reference and covering key events in the financial reporting cycle, will be approved by the Committee.

Following each Committee meeting, a written or verbal report will be made to the Group Board in which the Chairman of the Audit and Risk Committee describes the proceedings of the Committee meeting and makes recommendations to the Group Board as appropriate.

### Activities

The Bakkavor Holdings Limited Audit Committee met twice and dealt with the following matters:

- Review of the Financial Statements for 2016 and the External Auditor's Report on those Financial Statements
- Review of the Half-Year 2017 Financial Statements and the External Auditor's report on those Financial Statements

The Bakkavor Group plc Audit and Risk Committee met for the first time on 11 December 2017 and again on 20 February 2018 and 29 March 2018 and dealt with the following matters:

- Review of Internal Audit work carried out during 2017 and discussion and approval of the 2018 Internal Audit plan
- Review of significant risks and accounting policies for the year ended 30 December 2017
- Review of the External Audit plan for the year ended 30 December 2017
- Review and update on the Group's non-audit services policy
- Review of the Full Year 2017 Financial Statements and Annual Report
- Review of the Group's IT systems and its exposure to risks such as cyber attack and system failure
- Review of the Group's whistleblowing policy and procedures

During 2018, the Audit and Risk Committee will continue, among other things, to focus on:

- The Group's Internal Audit function and plan for 2018
- The Group's internal controls and risk management system
- Whistleblowing, fraud, bribery and other compliance policies and procedures
- Audit and Risk Committee effectiveness review
- External Audit tender
- External Auditor effectiveness, independence and fee

The following table sets out the reporting issues the Audit and Risk Committee considered during the year, and how the Committee discharged its responsibilities:

| Reporting issue | Role of the Committee | Conclusion/action taken |
|---|---|---|
| **Principal risks and viability** | | |
| For the 2017 reporting year onwards, the Directors are required to make a statement in the Annual Report as to the longer-term viability of the Group. | The Committee evaluated a report from management that set out the view of the Group's longer-term viability. | Taking into account the assessment by management, the Committee agreed to recommend the Viability Statement to the Group Board for approval. |

## REPORT OF THE AUDIT AND RISK COMMITTEE CONTINUED

| Reporting issue | Role of the Committee | Conclusion/action taken |
|---|---|---|
| **Fair, balanced and understandable reporting** | | |
| The Group is required to ensure that its external reporting is fair, balanced and understandable. | At the request of the Group Board, the Committee assessed, via discussion with and challenge of management, whether disclosures in the Group's published Financial Statements were fair, balanced and understandable. It received papers on key judgemental areas setting out management's accounting treatment and also sought and obtained confirmation from the Chief Financial Officer and his team that they considered the disclosures to be fair, balanced and understandable and discussed this evaluation with the External Auditors, who took this into account when conducting their audit. It also established via reports from management that there were no indications of fraud relating to financial reporting matters. | Having assessed all of the available information and the assurances provided by management, the Committee concluded that the processes underlying the preparation of the Group's published Financial Statements were appropriate in ensuring that those statements were fair, balanced and understandable. |
| **Risk Management and internal control** | | |
| The Committee is required to assist the Group Board in the annual review of the effectiveness of the Company's Risk Management process and internal control systems. | The Committee received a report and assessment of those risks that might threaten the Group's business model, future performance, solvency or liquidity. It considered and challenged management on the overall effectiveness of the Risk Management process and internal control systems. The Committee reviewed the relevant disclosures within the Accountability section of the Corporate Governance Report within the Annual Report. | The Committee agreed to recommend to the Group Board the Annual Report statements relating to the effectiveness of the Risk Management process and internal control systems. |
| **Internal Audit** | | |
| The Committee is required to oversee the performance, resourcing and effectiveness of the Internal Audit function. | The Company has an Internal Audit function, which currently comprises professionals from an external provider, RSM, who have the skills and experience required to carry out Internal Audit reviews across the Company's operational business units. The Committee reviewed the effectiveness of the Group's Internal Audit function in the overall context of the Group's internal controls and risk management systems.<br><br>It reviewed and assessed the risk-based Internal Audit plan.<br><br>It reviewed and monitored management's responsiveness to the findings and recommendations of the Internal Audit function.<br><br>The Committee received all Internal Audit reports and, in addition, received summary reports on the results of the work of the Internal Audit function on a periodic basis.<br><br>In addition to the 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 Committee reviewed the effectiveness of the Internal Audit function and approved the risk-based audit plan. The Committee is actively engaged in strengthening the Internal Audit function and scope during 2018. |

| Reporting issue | Role of the Committee | Conclusion/action taken |
|---|---|---|
| **Whistleblowing and bribery** | | |
| The Committee considers the adequacy of the Group's arrangements by which employees may in confidence raise concerns about improprieties in matters of financial reporting or other matters. | The Committee reviewed the Group's whistleblowing policy and anti-bribery and business ethics policy which were updated as part of the pre IPO work on governance and controls. | The Committee concluded that whistleblowing and anti-bribery processes were operating effectively. |
| **Oversight of External Auditors** | | |
| The Committee is required to oversee the work and performance of Deloitte as External Auditors, including the maintenance of audit quality during the period. | The Committee met with the key members of the Deloitte audit team to discuss the 2017 audit plan and agree areas of focus.<br><br>It assessed regular reports from Deloitte on the progress of the 2017 audit and any material issues identified. It debated the draft audit opinion for the 2017 year end. The Committee was also briefed by Deloitte on critical accounting estimates, where significant judgement is needed. | The Committee approved the audit plan and the main areas of focus, including valuation of customer deduction accruals and impairment reviews for goodwill and intangible assets. The Committee reviewed and discussed with Deloitte their Audit and Risk Committee report on the 2017 Financial Statements which highlighted any issues from the audit work undertaken by the External Auditors. |
| **Audit and audit-related fees** | | |
| Audit and audit-related fees include the statutory audit of the Group and its subsidiaries. | During the year, the Committee reviewed and approved a recommendation from management on the Company's audit and audit-related fees. | The Committee considers the 2017 audit fees to be in line with those expected given the complexities of the business and the external reporting requirements of a listed company. |
| **Non-audit fees** | | |
| To safeguard the objectivity and independence of the External Auditors from becoming compromised, the Committee has a formal policy governing the engagement of the External Auditors to provide non-audit services. The policy is reviewed on an annual basis and this year the Committee reviewed the Group's policy governing non-audit work against details of new regulations on the statutory audit of public interest entities which the Group is required to comply with since its public listing in November 2017.<br><br>The Group has updated its internal process on the engagement of auditors and review of non-audit services to ensure that its policy is in line with new regulation. | The Committee reviewed and approved all arrangements for non-audit fees. The Committee ensured that firms other than the External Auditors had been considered, following a competitive tender process, for the provision of a wide range of services. The Committee ensured there were no exceptions to fee limits and approval process per the policy during the year. | During the year, non-audit fees of £1.2 million were paid to Deloitte as discussed in Note 6 to the Consolidated Financial Statements. These principally related to Bakkavor's IPO. All non-audit services for the year were provided prior to the public listing.<br><br>The Committee continues to follow the statutory guidance to seek to reduce the reliance on the External Auditors for non-audit work. The Committee approved the rationalisation of non-audit work among service providers by the Group. |

# CORPORATE GOVERNANCE REPORT CONTINUED

## REPORT OF THE AUDIT AND RISK COMMITTEE CONTINUED

| Reporting issue | Role of the Committee | Conclusion/action taken |
|---|---|---|
| **Greenhouse gas emission ("GHG") data** | | |
| GHG emissions for the year ended 30 December 2017 were measured and reported as required. | The Committee reviewed the GHG emissions reported as required under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, following the UK Government Environmental Reporting Guidelines June 2013. | The Committee is satisfied that the judgements made by management are reasonable, and that appropriate disclosures have been included in the Annual Report. |
| **Significant issues** | | |
| The items noted below reflect those issues which were considered most significant in preparing the Annual Report Financial Statements: | | |
| *Impairment of goodwill and intangible assets*<br>The Group had significant amounts of goodwill and intangible assets as at 30 December 2017 that are subject to an annual impairment review under IFRS. | The Committee reviewed a paper prepared by management that set out the basis and assumptions for the annual impairment review. The paper set out the determination of cash-generating units ("CGUs"), the budget information used and the discount rate to be applied for the purpose of the value-in-use calculation. | The impairment review indicated that no impairment provisions were required for the year ended 30 December 2017. The Committee noted that there was lower headroom for the US CGU but that this was in their view to be expected at this stage of the development of the US business. |
| *Customer deduction accruals*<br>The Group has arrangements in place with its customers to provide volume-related rebates and is required to make estimates in determining the value and timing of accruals for these customer deductions due in respect of sales. | The Committee reviewed a paper prepared by management that set out the rationale for the calculation and timing of the accruals held at 30 December 2017 under these arrangements. The paper included a summary of the key agreements in place and the level of accruals held across the business. | The Committee challenged management on the logic that had been applied to determine the level of accruals held at 30 December 2017 under these arrangements. The Committee acknowledged that this was a highly subjective area that required a significant level of estimates to be made but concurred with the rationale applied by management to determine the value of these accruals. |

### External Auditor

Deloitte was appointed as the External Auditor of Bakkavor in 2005. The current lead audit Partner, William Smith, was appointed in September 2016.

### External Audit tender process

Following the IPO, and after Bakkavor became a constituent of the FTSE 250 at the end of February 2018, Bakkavor became a Public Interest Entity ("PIE") as defined under the Companies Act 2006. As a PIE, and in accordance with the Governance Code and EU legislation, Bakkavor is required to comply with all requirements regarding auditor tendering every 10 years and rotation after 20 years.

Bakkavor has not run a competitive audit tender process in the last 10 years and is therefore required to carry one out for its first audit after it became a PIE.

In compliance with the Competition and Markets Authority's final Order on mandatory tendering and audit committee responsibilities for FTSE 350 companies, the Audit and Risk Committee plans to carry out a full and competitive audit tender during 2018 with the External Auditor's appointment being effective for the audit of the 2018 financial year.

### Audit and Risk Committee evaluation

It is intended that an evaluation of the effectiveness of the Audit and Risk Committee will be conducted in 2018.

**Simon Burke**
Chairman, Audit and Risk Committee

9 April 2018

# DIRECTORS' REMUNERATION REPORT

## ANNUAL STATEMENT

### Chairman's overview

As the Chair of the Remuneration Committee, I am pleased to present, on behalf of the Group Board, our first Directors' Remuneration Report since our listing on the Main Market of the London Stock Exchange on 16 November 2017.

In line with the UK reporting regulations, this report is split into three sections:

- This Annual Statement summarising the work of the Committee and our approach to remuneration;
- The Directors' Remuneration Policy, which details Bakkavor's Remuneration Policy and how it links to strategy; and
- The Annual Report on Remuneration, which sets out the remuneration arrangements and incentive outcomes for the year under review and how the Committee intends to implement the new Remuneration Policy in 2018.

As this is the first financial year since coming to market, there will be two remuneration related resolutions at the May 2018 Annual General Meeting, being a binding vote on the Remuneration Policy and an advisory vote on the rest of the Remuneration Report.

### The work of the Remuneration Committee

The year ended 30 December 2017 was a major milestone in the Company's history as it completed a successful listing on the London market. Earlier in the year, in anticipation of the IPO, the Remuneration Committee undertook a comprehensive review of the existing senior executive remuneration structure and considered how best to transition to a model which meets the expectations of institutional investors and is in line with good corporate governance.

In doing so, the Committee took into account the significant shareholding held by the founder Directors both before and after listing and the existing remuneration structure which was weighted towards fixed pay and included a relatively modest annual bonus as the only form of performance related pay. The post-IPO Remuneration Policy has been developed with the assistance of our independent remuneration consultants and provides for greater balance in terms of the fixed to variable pay mix. Through participation in a new Long-Term Incentive Plan ("LTIP") and with part of the bonus deferred for three years, the Committee believes there is strong alignment with shareholders' interests and the Committee's objective of ensuring remuneration supports the long-term success of the Company. The policy also includes the good practice principles prevalent in UK companies such as annual bonus deferral, LTIP holding periods, share ownership guidelines and recovery and withholding provisions.

The Remuneration Policy aims to provide a competitive package that enables us to attract, retain and motivate high calibre senior management and supports the delivery of the Group's strategic objectives and continued success.

A summary of the post-listing remuneration arrangements was provided in the IPO prospectus. The Remuneration Policy contained in this report is consistent with what was disclosed previously and simply provides greater transparency and information for shareholders, as is required by the remuneration reporting regulations.

The Committee is aware of the corporate governance reforms that will be finalised by the FRC and Government this year and will come into force in 2019. As a Committee, we are regularly informed of developments and the evolving views of shareholders and shareholder voting bodies. The Committee takes a keen interest in governance and will seek to comply with good practice principles going forward.

### Remuneration in 2017

While the Company was in private ownership, senior executive packages comprised the following elements:

- Fixed pay made up of a base salary, ancillary benefits and a contribution towards pension, and
- A performance related cash bonus based on targets set at the start of the year.

The 2017 bonus opportunities for the Chief Executive Officer and Chief Financial Officer were 67% and 59% of base salary, respectively. Our financial performance resulted in an annual bonus payout of 22.7% and 29.4% of salary for the Chief Executive Officer and Chief Financial Officer, respectively. In line with the terms of the bonus plan, these bonuses will be paid in cash.

# DIRECTORS' REMUNERATION REPORT CONTINUED

As a quid pro quo for the absence of any long-term incentive opportunity, the Company operated a structure which included, in some cases, annual retention bonuses in addition to the performance related bonus set out above. As disclosed in the prospectus and in accordance with an arrangement entered into whilst Bakkavor was a private company, the Chief Financial Officer was eligible to receive a retention bonus of £200,000, subject to continued employment, which he received in January 2018. As part of the transition towards a more standard plc package that is aligned with good practice, such retention bonuses do not form part of the post-listing Remuneration Policy for Executive Directors. Further information is provided below.

Prior to Admission, Peter Gates and other selected Bakkavor employees were granted share option awards on a one-off basis. Peter's award was over 1,222,515 shares which have an exercise price of 76.4 pence. These options will vest in 2020 subject to continued employment and the achievement of an EBITDA condition. No awards were made at or immediately after the IPO.

**Application of Remuneration policy in 2018**

As part of the review, the Committee undertook a thorough review of salaries to consider market positioning and the relationship between fixed and variable pay. The Committee determined that the Executive Directors' salaries, which were set on 1 January 2017, were competitive and therefore remained unchanged post Admission. The Chief Executive Officer's salary is £750,000 and the Chief Financial Officer's is £467,000. There will be no change in 2018 and salaries will next be reviewed in January 2019. The Committee's default policy is to consider whether a salary increase is warranted, and in such cases to increase salaries by no more than the increase across the wider workforce.

As outlined in the prospectus, the annual bonus opportunity in 2018 will be 80% of salary for Agust Gudmundsson and 125% of salary for Peter Gates. Payment of the annual bonus will be subject to the achievement of challenging financial targets with 50% based on adjusted EBITDA, 25% on revenue and 25% on Free Cash Flow. Two-thirds of any bonus that might become payable will be paid in cash and the remaining one-third will be deferred for three years. The deferral will be in the form of cash for the Chief Executive Officer reflecting his existing shareholding and in shares for the Chief Financial Officer.

As a result of the Chief Executive Officer's significant shareholding, Agust Gudmundsson will not participate in the Long-Term Incentive Plan. The Committee intends to make an Long-Term Incentive Plan award to Peter Gates with a face value of 150% of salary in 2018. This award will be subject to a relative Total Shareholder Return ("TSR") measure and an earnings per share condition, each with an equal weighting measured over a three year period. A two year post-vesting holding period will apply on any vested awards.

**Conclusion**

The Committee recognised that senior executive salaries were positioned at competitive levels prior to IPO and therefore took the view that there should be no change to fixed pay levels post listing or in 2018. Reflecting the The Chief Executive Officer's existing interests as a co-founder of the Group, his variable pay participation has been limited to the annual bonus. The Chief Financial Officer's new package now has a more typical balance between fixed and variable pay and no longer includes a retention bonus. We believe the remuneration policy is appropriate for a FTSE 250 company and is one that can assist with retaining and attracting high calibre talent in a competitive industry to ensure our continued success. The packages also include the good practice elements that feature in UK plc practice.

The Committee recognises the importance of developing a close relationship with shareholders in facilitating the work of the Committee in developing the remuneration policy and how we operate it. Therefore, if you have any comments or feedback on this report, then please let me know through the General Counsel and Company Secretary. I look forward to receiving your support at the 2018 AGM.

**Denis Hennequin**

Chair of the Remuneration Committee

9 April 2018

## REMUNERATION POLICY

**This part of the Directors' Remuneration Report sets out the Remuneration Policy ("the Policy") for the Group and has been prepared in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and the UK Listing Authority's Listing Rules. The Policy was developed taking into account the principles of the Governance Code and the voting guidelines of major UK institutional investor bodies.**

The following Policy will be put forward for approval by shareholders in a binding vote at the forthcoming 2018 AGM. If approved, it is intended that the Policy will take effect from the date of approval and last for three years.

### Key considerations when determining the Remuneration Policy

The Remuneration Committee designed the Policy with the following aims in mind. The Policy should:

- attract, retain and motivate high calibre senior management and focus them on the delivery of the Group's strategic and business objectives
- be competitive against appropriate market benchmarks with the ability to earn above market rewards for strong performance
- be simple and understandable, both internally and externally
- achieve consistency of approach across the Senior Management population to the extent appropriate and
- take due account of good governance and promote the long-term success of the Group

In seeking to achieve the above objectives, the Committee is mindful of the views of a broad range of stakeholders in the business and accordingly takes account of a number of factors when setting remuneration including market conditions, pay and benefits in relevant comparator organisations, terms and conditions of employment across the Group, the Group's risk appetite, the expectations of institutional shareholders and feedback from shareholders and other stakeholders.

#### Shareholder views

The Group Board is committed to open dialogue with shareholders and intends to engage directly with them and their representative bodies when considering any significant changes to our remuneration arrangements. The Remuneration Committee will consider shareholder feedback received following the AGM, as well as any additional feedback and guidance received from time to time. This feedback will be considered by the Committee as it develops the Company's remuneration framework and practices going forward. Assisted by its independent adviser, the Remuneration Committee also actively monitors developments in the expectations of institutional investors and their representative bodies.

#### Employment conditions

The Committee is regularly updated throughout the year on pay and conditions applying to Group employees including any significant changes to employment conditions.

Whilst the Committee does not currently consult directly with employees regarding its policy for Directors, the Committee will consider the proposals being introduced as part of the FRC's updated UK Corporate Governance Code in 2018 and will determine accordingly the best method of bringing the employee voice to the boardroom.

The Remuneration Policy for Executive Directors, which is set out over the following pages, supports the business needs of the Company, ensuring it promotes long-term success whilst enabling it to attract, retain and motivate senior executives of a high calibre. The Committee is satisfied that the remuneration policy supports the Company's strategy of growing long-term shareholder value and appropriately balances fixed and variable remuneration. With a high proportion of reward delivered in the form of equity (for executives other than the current Chief Executive Officer), this ensures that executives have a strong alignment with shareholders through the Company's share price.

## REMUNERATION POLICY TABLE

The table below sets out, for each element of pay, a summary of how remuneration is structured after listing and how it supports the Company's strategy.

### Executive Directors

| Purpose and link to strategy | Operation | Maximum opportunity | Performance metrics |
|---|---|---|---|
| **Base salary** | | | |
| To recruit and retain executives of the highest calibre who are capable of delivering the Group's strategic objectives, reflecting the individual's experience and role within the Group.<br><br>Base salary is designed to provide an appropriate level of fixed income to avoid an over-reliance on variable pay elements that could encourage excessive risk taking. | Salaries are normally reviewed annually and changes are generally effective from the start of the financial year.<br><br>The annual salary review of Executive Directors takes a number of factors into consideration, including:<br>• business performance<br>• salary increases awarded to the overall employee population<br>• skills and experience of the individual over time<br>• scope of the individual's responsibilities;<br>• changes in the size and complexity of the Group<br>• market competitiveness assessed by periodic benchmarking<br>• the underlying rate of inflation | Whilst there is no prescribed formulaic maximum, any increases will take into account prevailing market and economic conditions and the approach to employee pay throughout the organisation.<br><br>Base salary increases are awarded at the discretion of the Committee; however, salary increases will normally be no greater than the general increase awarded to the wider workforce, in percentage of salary terms.<br><br>Percentage increases beyond those granted to the wider workforce may be awarded in certain circumstances such as when there is a change in the individual's role or responsibility or where there has been a fundamental change in the scale or nature of the Company.<br><br>In addition, a higher increase may be made where an individual had been appointed to a new role at below market salary while gaining experience. Subsequent demonstration of strong performance may result in a salary increase that is higher than for the wider workforce. | Executive Directors' performance is a factor considered when determining salaries.<br><br>No recovery or withholding provisions apply. |
| **Benefits** | | | |
| Benefits in kind offered to Executive Directors are provided to assist with retention and recruitment. | The Company aims to offer benefits that are in line with typical market practice.<br><br>The main benefits currently provided include:<br>• family private medical insurance<br>• life assurance<br>• income protection<br>• health screening<br>• company car/car allowance<br>• travel insurance<br><br>Under certain circumstances the Group may offer relocation allowances or assistance. Expatriate benefits may be offered where required.<br><br>Travel and any reasonable business-related expenses (including tax thereon) may be reimbursed on a gross of tax basis.<br><br>Executive Directors may become eligible for other benefits which are introduced for the wider workforce on broadly similar terms. | The value of each benefit is not predetermined and is typically based upon the cost to the Group. | Not performance-related.<br><br>No recovery or withholding provisions apply other than if relocation costs are provided. A proportion of any relocation costs may be recovered where a Director leaves the employment of the Group within a specified time period after appointment or date of relocation. |

| Purpose and link to strategy | Operation | Maximum opportunity | Performance metrics |
|---|---|---|---|
| **Pensions** | | | |
| The Group aims to provide a contribution towards life in retirement. | Directors are eligible to receive employer contributions to the Company's pension plan (which is a defined contribution plan) or a salary supplement in lieu of pension benefits or a mixture of both. | Up to 15% of base salary per annum for the current Chief Executive Officer and 20% of base salary per annum for the current Chief Financial Officer contribution.<br><br>A maximum 15% of salary contribution applies to new directors. | Not performance-related.<br><br>No recovery or withholding provisions apply. |
| **Short-Term Incentive Plan (STIP or annual bonus)** | | | |
| The annual bonus scheme rewards the achievement of stretching objectives that support the Group's corporate goals and delivery of the business strategy.<br><br>Delivery of a proportion in deferred bonus shares provides a retention element and alignment with shareholders. | Bonuses are determined based on measures and targets that are agreed by the Committee at the start of each financial year.<br><br>Two-thirds of the annual bonus will be payable in cash, typically in March following the end of the financial year<br><br>Up to one-third of the bonus is compulsorily deferred in shares (or cash in the case of the current Chief Executive Officer) for three years under the Deferred Annual Bonus Plan. At the discretion of the Committee, participants may also be entitled to receive the value of dividends paid between grant and vesting on vested shares. The payment may be in cash or shares and may assume dividend reinvestment. | The maximum annual bonus opportunity is 150% of salary for Executive Directors.<br><br>The current Chief Executive Officer's bonus opportunity is lower, at 80% of his base salary.<br><br>The normal maximum for the current Chief Financial Officer is 125% of salary although this may be increased in line with the maximum 150% of salary limit. | Performance measures are determined by the Committee each year and may vary to ensure that they promote the Company's long-term business strategy and shareholder value.<br><br>The majority of the annual bonus outcome will be based on financial measures. This may be a single measure such as profit or a mix of measures as determined by the Committee.<br><br>Personal objectives and/or strategic KPIs may also be chosen.<br><br>Where a sliding scale of targets applies, up to 20% of that element may be payable for threshold performance.<br><br>The bonus measures are reviewed annually and the Committee has the discretion to vary the mix of measures or to introduce new measures taking into account the strategic focus of the Company at the time.<br><br>The Committee may alter the bonus outcome if it considers that the pay out is inconsistent with the Company's overall performance taking account of any factors it considers relevant. This will help ensure that the pay out reflects overall Company performance during the period. The Committee will consult with leading investors if appropriate before any exercise of its discretion to increase the bonus outcome.<br><br>Bonus payments, including deferred bonus awards, are subject to recovery and withholding provisions (see 'Recovery and withholding' in the 'Notes to the policy table' below for further detail). |

# DIRECTORS' REMUNERATION REPORT CONTINUED

## REMUNERATION POLICY TABLE CONTINUED

### Executive Directors

| Purpose and link to strategy | Operation | Maximum opportunity | Performance metrics |
|---|---|---|---|
| **Long-Term Incentive Plan (LTIP)** | | | |
| The LTIP is designed to incentivise the successful execution of business strategy over the longer term and provide long-term retention.<br><br>Facilitates share ownership to provide further alignment with shareholders. | Awards will typically be granted annually to Executive Directors in the form of nil or nominal cost options that vest according to performance conditions normally measured over three financial years.<br><br>Awards are subject to an additional post-vesting holding period which requires awards to be retained for a period of two years from the end of the vesting period, except for shares sold to pay personal tax upon vesting/exercise.<br><br>At the discretion of the Committee, participants may also be entitled to receive the value of dividends paid between grant and vesting (or, if applicable, between grant and the earlier to occur of the expiry of any holding period and the exercise of an award) on vested shares. The payment may be in cash or shares and may assume dividend reinvestment<br><br>The current Chief Executive Officer will not participate in the LTIP. | The individual plan limit is 200% of base salary in any financial year.<br><br>The award policy for the current Chief Financial Officer is set at 150% of base salary, although the Committee has the discretion to make an award of up to 200% of base salary. | Performance is normally measured over no less than three financial years.<br><br>Awards will be subject to the achievement of stretching targets designed to incentivise performance in support of the Group's strategy and business objectives.<br><br>The first set of LTIP awards will be subject to relative TSR and earnings per share growth targets. However, the Committee has the flexibility to vary the mix of measures or to introduce new measures for each subsequent award taking into account business priorities at the time of grant.<br><br>For TSR and financial measures, no more than 25% of each element may vest for threshold performance.<br><br>The Committee may alter the vesting outcome if it considers that the level of vesting is inconsistent with the Company's overall performance taking account of any factors it considers relevant. This will help ensure that vesting reflects overall Company performance during the period. The Committee would seek to consult with leading investors if appropriate before any exercise of its discretion to increase the vesting outcome.<br><br>Awards are subject to recovery and withholding provisions (see 'Recovery and withholding' in the 'Notes to the policy table' below for further detail). |
| **All-employee share schemes** | | | |
| Encourages employee share ownership and therefore increases alignment with shareholders. | The Company may, from time to time, operate tax-approved share plans (such as HMRC-approved Save As You Earn Option Plan and Share Incentive Plan) for which Executive Directors could be eligible. | The schemes are subject to the limits set by HMRC from time to time. | Not performance related.<br><br>No recovery or withholding provisions apply. |

| Purpose and link to strategy | Operation | Maximum opportunity | Performance metrics |
|---|---|---|---|
| **Share ownership guidelines** | | | |
| Encourages Executive Directors to build a meaningful shareholding in the Group so as to further align interests with shareholders. | Executive Directors are required to retain at least half of any share awards vesting as shares (after the sale of any shares to settle tax due) until they have reached the required level of holding.<br><br>Only shares owned outright by the Executive Director or a connected person are included. Shares or share options which are subject to a performance condition are not included. Deferred shares and options which are vested but unexercised are also not included. | Executive Directors are required to build and retain a shareholding in Bakkavor equivalent to at least 200% of their base salary. | Not performance related. |
| **Chairman and Non-executive Directors' fees** | | | |
| To attract Non-executive Directors who have a broad range of experience and skills to provide independent judgement on issues of strategy, performance, resources and standards of conduct. | Non-executive Directors may receive fees paid monthly in cash which consist of an annual basic fee and they may receive additional fees for additional responsibilities.<br><br>The Chairman's fee is reviewed annually by the Committee (without the Chairman present).<br><br>Fee levels for the Non-executive Directors are determined by the Company Chairman and Executive Directors.<br><br>In exceptional circumstances, if there is a temporary yet material increase in the time commitments for Non-executive Directors, the Board may pay extra fees to recognise that additional workload.<br><br>Non-executives ordinarily do not participate in any pension, bonus or share incentive plans. Travel, accommodation and other business-related expenses incurred in carrying out the role will be paid by the Company including, if relevant, any gross-up for tax.<br><br>As was disclosed in the prospectus prepared on Admission, Lydur Gudmundsson is currently employed to provide consulting services to the Group for an annual fee. He receives medical cover for the benefit of his family in the UK.<br><br>Robert Berlin does not receive any fees from the Group in respect of his role as Non-executive Director. | When reviewing fee levels, account is taken of market movements in the fees of Non-executive Directors, Group Board Committee responsibilities and ongoing time commitments.<br><br>Actual fee levels are disclosed in the Annual Remuneration Report for the relevant financial year. | Not performance related.<br><br>No recovery or withholding provisions apply. |

## Notes to the policy table

### Recovery and withholding

Awards under the Annual Bonus Plan, the Deferred Annual Bonus Plan and the Long-Term Incentive Plan are subject to recovery and withholding provisions which permit the Committee, in its discretion, to reduce the size of any future bonus or share award granted to the employee, to reduce the size of any granted but unvested share award held by the employee, or to require the employee to make a cash payment to the Company. The circumstances in which the Company may apply the recovery and withholding provisions are the discovery of a material misstatement of financial results, a miscalculation or error in assessing any condition (including any performance condition) applying to the award, or in the event of serious misconduct committed by the employee.

In respect of cash bonus payments under the Annual Bonus Plan, the recovery and withholding provisions apply for one year from the date of payment of the bonus (or, if later, the date of publication of the Company's financial results for the year following the relevant year over which the bonus was earned).

In respect of share awards under the Deferred Annual Bonus Plan and the Long-Term Incentive Plan, the recovery and withholding provisions apply up until the third anniversary of the date on which the relevant award vests, although the Committee may extend this period for a further two years if there is an ongoing investigation into the circumstances of any event that, if determined to have occurred, would permit the Committee to operate the recovery and withholding provisions.

### Performance conditions

The choice of performance metrics applicable to the annual bonus scheme reflect the Committee's belief that any incentive compensation should be appropriately challenging and tied to both the delivery of key financial targets and individual and/or strategic performance measures intended to ensure that Executive Directors are incentivised to deliver across a range of objectives for which they are accountable. The Committee has retained some flexibility on the specific measures which will be used to ensure that any measures are fully aligned with the strategic imperatives prevailing at the time they are set.

The targets for the bonus scheme for the forthcoming year will be set out in general terms, subject to limitations with regards to commercial sensitivity. The full details of the targets will be disclosed in the Directors' Remuneration Report when they are in the public domain, usually following the end of the relevant financial year.

The choice of the performance conditions applicable to the LTIP awards will be aligned with the Company's objective of delivering superior levels of long-term value to shareholders. The Committee has retained flexibility on the measures which will be used for future award cycles to ensure that the measures are fully aligned with the strategy prevailing at the time the awards are granted. Notwithstanding this, the Committee would, if appropriate, seek to consult with major shareholders in advance of any material change to the choice or weighting of the LTIP performance measures.

The Committee will review the calibration of targets applicable to the annual bonus and the LTIP annually to ensure they remain appropriate and sufficiently challenging, taking into account the Company's strategic objectives and the interests of shareholders.

### Differences in Remuneration Policy between Executive Directors and other employees

The overall approach to reward for employees across the workforce is a key reference point when setting the remuneration of the Executive Directors. When reviewing the salaries of the Executive Directors, the Committee pays close attention to pay and employment conditions across the wider workforce and in normal circumstances the increase for Executive Directors will be no higher than the average increase for the general workforce.

The key difference between the remuneration of Executive Directors and that of our other employees is that, overall, at senior levels, remuneration is increasingly long term, and 'at risk' with an emphasis on performance-related pay linked to business performance and share-based remuneration. This ensures that remuneration at senior levels will increase or decrease in line with business performance and provides alignment between the interests of Executive Directors and shareholders. In particular, long-term incentives are provided only to the most senior executives as they are reserved for those considered to have the greatest potential to influence overall levels of performance.

## Committee discretion in operation of variable pay schemes

The Committee operates under the powers it has been delegated by the Group Board. In addition, it complies with rules that are either subject to shareholder approval (Long-Term Incentive Plan and Deferred Share Bonus Plan) or by approval of the Group Board (annual performance bonus scheme). These rules provide the Committee with certain discretions which serve to ensure that the implementation of the Remuneration Policy is fair, both to the individual Director and to the shareholders. The Committee also has discretion to set components of remuneration within a range, from time to time. The extent of such discretion is set out in the relevant rules, the maximum opportunity or the performance metrics section of the policy table above. To ensure the efficient administration of the variable incentive plans outlined above, the Committee will apply certain operational discretions.

These include the following:

- selecting the participants in the plans on an annual basis
- determining the timing of grants of awards and/or payments
- determining the quantum of awards and/or payments (within the limits set out in the policy table
- determining the choice of (and adjustment of) performance measures and targets for each incentive plan in accordance with the policy set out above and the rules of each plan
- determining the extent of vesting based on the assessment of performance and discretion relating to measurement of performance in certain events such as a change of control or reconstruction
- whether malus and clawback shall be applied to any award in the relevant circumstances and, if so, the extent to which it shall be applied
- making the appropriate adjustments required in certain circumstances, for instance for changes in capital structure
- determining 'good leaver' status for incentive plan purposes and applying the appropriate treatment
- undertaking the annual review of weighting of performance measures and setting targets for the annual bonus plan and other incentive schemes, where applicable, from year to year

If an event occurs which results in the Annual Bonus Plan or LTIP performance conditions and/or targets being deemed no longer appropriate (e.g. material acquisition or divestment), the Committee will have the ability to adjust appropriately the measures and/or targets and alter weightings, provided that the revised conditions are not materially less challenging than the original conditions. Any use of the above discretion would, where relevant, be explained in the Annual Report on Remuneration and may, as appropriate, be the subject of consultation with the Company's major shareholders.

## Legacy arrangements

For the avoidance of doubt, the Committee may approve payments to satisfy commitments agreed prior to the listing of the Company in November 2017 that have either been disclosed to shareholders in the prospectus or formed part of the pre-IPO remuneration policy. The Committee may also approve payments outside this Remuneration Policy in order to satisfy legacy arrangements made to an employee prior to (and not in contemplation of) promotion to the Group Board.

All historic awards that were granted in connection with or prior to listing but which remain outstanding, remain eligible to vest based on their original award terms.

## Remuneration scenarios for Executive Directors

The charts below show an estimate of the 2018 remuneration package for each Executive Director under three assumed performance scenarios. These scenarios are based upon the Remuneration Policy set out above.

The scenarios in the graphs below are defined as follows:

Below target (comprising fixed pay only):

- Base salary as at 1 January 2018
- Benefits: estimated value provided under the policy
- Pension: 15% of salary contribution for the Chief Executive Officer, 20% of salary for the Chief Financial Officer

Target:

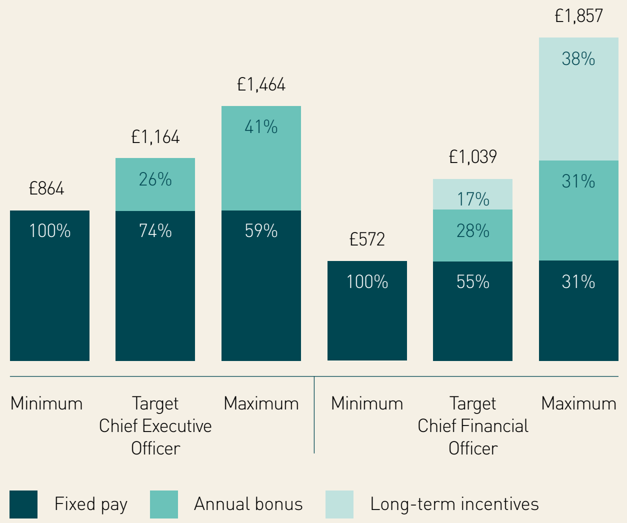
- Fixed pay as set out above
- Assumes bonus pay out of 50% of 2018 maximum bonus opportunity levels
- Assumes 25% of the LTIP vests (note: the Chief Executive Officer does not participate in the LTIP)

Maximum:

- Fixed pay as set out above
- Assumes 100% of maximum bonus pay out (80% of salary for CEO and 125% of salary for Chief Financial Officer)
- Assumes 100% of the LTIP vests (assuming a 150% of salary grant for the Chief Financial Officer. The Chief Executive Officer does not participate in the LTIP)

No share price growth has been factored in to the chart, and all amounts have been rounded to the nearest £1,000.

**Remuneration (£000s)**



# DIRECTORS' REMUNERATION REPORT CONTINUED

## Other remuneration policies

### Remuneration for new appointments

Where it is necessary to appoint or replace an Executive Director, the Committee's approach when considering the overall remuneration arrangements in the recruitment of a new Executive Director is to take account of the calibre, expertise and responsibilities of the individual, his or her remuneration package in their prior role and market rates. Remuneration will be in line with our policy and the Committee will not pay more than is necessary to facilitate recruitment.

The remuneration package for a new Executive Director will be set in accordance with the terms of the Company's approved remuneration policy in force at the time of appointment. Further details are provided below:

| | |
|---|---|
| **Salary** | The Committee will set a base salary appropriate to the calibre, experience and responsibilities of the new appointee. In arriving at a salary, the Committee may take into account, amongst other things, the market rate for the role and internal relativities.<br>The Committee has the flexibility to set the salary of a new Executive Director at a lower level initially, with a series of planned increases implemented over the following few years to bring the salary to the desired positioning, subject to individual performance.<br>In exceptional circumstances, the Committee has the ability to set the salary of a new Executive Director at a rate higher than the market level to reflect the criticality of the role and the experience and performance of the individual. |
| **Benefits** | Benefits will be consistent with the principles of the policy set out on page 56. The Company may award certain additional benefits and other allowances including, but not limited to, those to assist with relocation support, temporary living and transportation expenses, educational costs for children and tax equalisation to allow flexibility in employing an overseas national. |
| **Pension benefits** | A maximum pension contribution of 15% of salary may be payable for external appointments.<br>For an internal appointment, his or her existing pension arrangements may continue to operate.<br>Any new Executive Director based outside the UK will be eligible to participate in pension or pension allowance, insurance and other benefit programmes in line with local practice. |
| **Annual bonus** | The maximum bonus oppxortunity is 150% of base salary. |
| **Long-Term Incentive Plan** | The maximum opportunity is 200% of base salary which may be used on recruitment and on an ongoing basis, if appropriate. |
| **Replacement awards** | In addition to the above, the Committee may offer additional cash and/or share-based elements in order to 'buy-out' remuneration relinquished on leaving a former employer.<br>In the event that such a buy-out is necessary to secure the services of an Executive Director then the structure of any award or payment will mirror, as far as is possible, the arrangements in place at the incoming Executive Director's previous employer.<br>Any share awards made in this regard may have no performance conditions, or different performance conditions, or a shorter vesting period compared to the Company's existing plans, as appropriate.<br>Shareholders will be informed of any buy-out arrangements at the time of the Executive Director's appointment. |
| **Notice periods** | Notice periods shall be up to 12 months. |

Depending on the timing and responsibilities of the appointment, it may be necessary to set different annual bonus/LTIP performance measures and targets as applicable to other Executive Directors.

The terms of appointment for a Non-executive Director would be in accordance with the remuneration policy for Non-executive Directors as set out in the policy table.

### Termination and loss of office payments

The Group's policy on remuneration for Executive Directors who leave the Group is consistent with general market practice and is set out below. The Committee will exercise its discretion when determining amounts that should be paid to leavers, taking into account the facts and circumstances of each case.

It is the Company's policy that the period of notice for Executive Directors will not normally exceed 12 months and, accordingly, the employment contracts of the Executive Directors are terminable on 12 months' notice by either party. In the event of an Executive Director's departure, a payment in lieu of notice may be payable. The Company may pay the value of the Executive Director's base salary together with accrued holiday entitlement.

The Company is unequivocally against rewards for failure; the circumstances of any departure, including the individual's performance, would be taken into account in every case. Statutory redundancy payments may be made, as appropriate. Service agreements may be terminated without notice and without payment in lieu of notice in certain circumstances, such as gross misconduct. The Company may require the Executive Director to work during their notice period or may choose to place the individual on garden leave, for example, to ensure the protection of the Company's and shareholders' interests where the Executive Director has access to commercially sensitive information.

Except in the case of gross misconduct or resignation, the Company may at its absolute discretion reimburse for reasonable professional fees relating to the termination of employment and, where an Executive Director has been required to re-locate, to pay reasonable repatriation costs, including possible tax exposure costs.

Ordinarily, Executive Directors have no entitlement to a bonus payment in the event that they cease to be employed by the Group or are under notice of termination of employment at the date that their bonus would otherwise be paid. However, they may be considered for a bonus payment by the Committee in "good leaver" circumstances (i.e. death, injury, disability, retirement, their employing company or the business for which they work being sold out of the Group or in other circumstances at the discretion of the Remuneration Committee). Any such bonus payment would ordinarily be subject to a pro-rata reduction based on period worked in the relevant year, and there would be no requirement for any portion of such bonus payment to be deferred into an award over shares under the Deferred Annual Bonus Plan.

In the event of an Executive Director's departure, any outstanding share awards will be treated in accordance with the plan rules as follows:

| Plan | Treatment on cessation |
|---|---|
| **Deferred Annual Bonus Plan (DABP)** | As a general rule, a DABP award will lapse upon a participant ceasing to hold employment or ceasing to be a Director within the Group (where relevant).<br><br>In the event of a participant's death, injury, disability, retirement, their employing company or the business for which they work being sold out of the Group or in other circumstances at the discretion of the Remuneration Committee, awards will not be forfeited but will instead normally vest in full on the original vesting date (or on the date of cessation if the Remuneration Committee so determines) to such extent (which may include the full extent of the award) as the Remuneration Committee determines appropriate.<br><br>In exceptional circumstances, the Remuneration Committee may allow the awards to vest on cessation of the participant's employment. |
| **Long-Term Incentive Plan** | As a general rule, an LTIP award will lapse upon a participant ceasing to hold employment or ceasing to be a Director within the Group (where relevant).<br><br>However, if the participant ceases to be an employee or a Director within the Group because of their death, injury, disability, retirement, their employing company or the business for which they work being sold out of the Group or in other circumstances at the discretion of the Remuneration Committee, then their award will vest on the date when it would have vested if they had not so ceased.<br><br>The extent to which an award will vest in these situations will depend upon two factors:<br>i) the extent to which the performance conditions (if any) have been satisfied at that time and<br>ii) the pro-rating of the award by reference to the period of time served in employment during the normal vesting period, although the Remuneration Committee can decide to reduce or eliminate the pro-rating of an award if it regards it as appropriate to do so in the particular circumstances<br><br>Alternatively, if a participant ceases to be an employee or Director in the Group for one of the 'good leaver' reasons specified above (or in other circumstances at the discretion of the Remuneration Committee), the Remuneration Committee can decide that their award will vest on cessation, subject to:<br>i) the performance conditions measured at that time and<br>ii) pro-rating by reference to the time of cessation as described above<br><br>Such treatment shall also apply in the case of death. |

# DIRECTORS' REMUNERATION REPORT CONTINUED

### Executive Directors' service contracts

In accordance with long-established policy, all Executive Directors have rolling service agreements which may be terminated in accordance with the terms of these agreements. Directors' service agreements are kept for inspection by shareholders at the Company's registered office.

| Name | Date of joining Bakkavor | Date of service contract | Notice period |
|---|---|---|---|
| Agust Gudmundsson | 1 August 1986 (founder) | 18 December 2011, as amended by a variation letter dated 2 October 2017 | 12 months either party |
| Peter Gates | 9 November 2010 | 2 October 2017 | 12 months either party |

### Policy on external appointments

The Board believes that it may be beneficial to the Group for executives to hold Non-executive Directorships outside the Group. Any such appointments are subject to approval by the Group Board and the Director may retain any fees received at the discretion of the Group Board. Neither Executive Director currently holds any outside directorships.

### Non-executive Directors' terms of engagement

Each of the Non-executive Directors is engaged under a market standard Non-executive Director appointment letter, which states that the appointment will continue for a renewable three-year term provided that the appointment must not continue for more than nine years in total. In any event, each appointment is terminable by either party on one month's written notice. All Non-executive Directors are subject to annual re-election at each AGM.

The dates of appointment of each of the Non-executive Directors serving at the date of this report are summarised in the table below.

| Non-executive Directors | Date of joining Bakkavor | Date of contract or date of appointment |
|---|---|---|
| Simon Burke (Chairman) | 1 December 2016 | 20 October 2017 |
| Robert Berlin | 22 January 2016 | 28 September 2017 |
| Sue Clark | 20 October 2017 | 20 October 2017 |
| Lydur Gudmundsson | 1 August 1986 (founder) | 20 October 2017 |
| Denis Hennequin | 20 October 2016 | 20 October 2017 |
| Todd Krasnow | 22 January 2016 | 20 October 2017 |

The Chairman, in consultation with the Executive Directors, is responsible for proposing changes to the Non-executive Directors' fees. The Senior Independent Director, in consultation with the Executive Directors, is responsible for proposing changes to the Chairman's fees.

In proposing such fees, account is also taken of the time commitments of the Group's Non-executive Directors. The decision on fee changes is taken by the Group Board as a whole. Individual Non-executive Directors do not take part in discussions in relation to their own remuneration.

## ANNUAL REPORT ON REMUNERATION

**This part of the report has been prepared in accordance with Part 3 of The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and Rule 9.8.6 of the Listing Rules. The Annual Report on Remuneration and the Annual Statement by the Chairman of the Remuneration Committee will be put to a single advisory shareholder vote at the AGM on 23 May 2018.**

## REPORT OF THE REMUNERATION COMMITTEE ("THE COMMITTEE")

### Committee membership

| | | |
|---|---|---|
| Chair | Denis Hennequin | |
| Members | Sue Clark | Todd Krasnow |

The biographies of the Committee members are set out on pages 38 to 39.

Members of management including the Chief Executive Officer, the Chief Financial Officer, the Group HR Director and the Head of Reward are invited to attend meetings where appropriate. The Group HR Director is the secretary to the Committee. Attendees are not involved in any decisions, and are not present for any discussions regarding their own remuneration. The Company Chairman may attend meetings but is not present when his own remuneration arrangements are being decided.

After each meeting, the Chair of the Committee presents a report on its activities to the Group Board.

No conflicts of interest have arisen during the period and none of the members of the Committee has any personal financial interest in the matters discussed, other than as shareholders. The fees of the Non-executive Directors are determined by the Group Board on the joint recommendation of the Chairman and the Chief Executive Officer/Executive Directors.

### Meetings attendance (since the IPO and for the year ended 30 December 2017)

The Committee met on 20 December 2017.

| | Attendance |
|---|---|
| Sue Clark | 1 out of 1 |
| Denis Hennequin | 1 out of 1 |
| Todd Krasnow | 1 out of 1 |

### Independent advisers

The Committee takes account of information from both internal and independent sources, including New Bridge Street ("NBS") (Aon plc's executive remuneration consultancy) who act as the Committee's adviser. NBS advised on remuneration arrangements in advance of the listing and continues to advise the Committee on all aspects of senior executive remuneration. Since listing, NBS has assisted with the drafting of the Remuneration Policy and has kept the Committee up to date on remuneration trends and corporate governance best practice.

NBS is a founder member of the Remuneration Consultants' Group and complies with its Code of Conduct, which sets out guidelines to ensure that its advice is independent and free of undue influence. The Committee reviews the performance and independence of its advisers on an annual basis. During the period since listing, Bakkavor incurred fees of £18,000 from NBS relating to Remuneration Committee advice.

# DIRECTORS' REMUNERATION REPORT CONTINUED

### Activity in the period

The Committee's principal function is to support Bakkavor's strategy by ensuring that those individuals responsible for delivering the strategy are appropriately incentivised and rewarded through the operation of Bakkavor's Remuneration Policy. In determining the Group's policy, and in constructing the remuneration arrangements for Executive Directors and senior employees, the Group Board, advised by the Committee, aims to provide remuneration packages that are competitive and designed to attract, retain and motivate Executive Directors and senior employees of the highest calibre.

The Committee considered the following items during the period:

- setting a Remuneration Policy that is designed to promote the long-term success of the Company;
- ensuring that the remuneration of the Executive Directors and other senior executives reflects both their individual performance and their contribution to the overall Group results;
- determining the terms of employment and remuneration of the Executive Directors and senior executives, including recruitment and retention terms;
- approving the design and performance targets of any annual incentive schemes that include the Executive Directors and senior executives;
- agreeing the design and performance targets of all share incentive plans;
- assessing the appropriateness and subsequent achievement of the performance targets related incentive plans; and
- recommending to the Board the fees to be paid to the Chairman. The Chairman is excluded from this process.

The Committee is formally constituted and operates on written terms of reference, which are modelled on the Governance Code and are available on Bakkavor's website, www.bakkavor.com.

### Single total figure of Directors' remuneration – year ended 30 December 2017 (audited)

The total remuneration of the individual Directors who served during the financial year is shown below. Total remuneration is the sum of emoluments plus Company pension contributions for the 2017 financial year. Only 2017 data has been included as the Company listed on the Main Market of the London Stock Exchange on 16 November 2017.

| | Base salary £000 | Benefits[9] £000 | Bonus £000 | LTIP £000 | Pension entitlements £000 | Other £000 | **Total remuneration £000** |
|---|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | | |
| Agust Gudmundsson[1] | 750 | 1 | 170 | – | 113 | 29 | **1,063** |
| Peter Gates[2] | 467 | 12 | 138 | – | 93 | 200 | **910** |
| **Non-executive Directors** | | | | | | | |
| Simon Burke (Chairman)[3] | 86 | – | – | – | – | – | **86** |
| Robert Berlin[6] | – | – | – | – | – | – | **–** |
| Sue Clark[8] | 14 | – | – | – | – | – | **14** |
| Lydur Gudmundsson[4] | 245 | 1 | – | – | – | 28 | **274** |
| Denis Hennequin[7] | 70 | – | – | – | – | – | **70** |
| Todd Krasnow[5] | 100 | – | – | – | – | 500 | **600** |
| | 1,732 | 14 | 308 | – | 206 | 757 | **3,017** |

### Notes to the remuneration table

1 Agust Gudmundsson's base salary was set at £750,000 on 1 January 2017. Agust was eligible for Director fees, pension and life assurance in Iceland in 2017 and the value of this is shown in the 'Other' column. These arrangements ceased as of 30 December 2017.

2 Peter Gates's base salary was set at £467,000 on 1 January 2017. Prior to Admission, according to an arrangement entered into on 16 March 2017, the Chief Financial Officer was eligible to receive a retention bonus of £200,000 in January 2018 subject to continued employment. This type of arrangement does not form part of the new remuneration policy and will not continue in 2018. He was appointed to the Board on 20 October 2017 but he was the Group CFO for the whole of 2017 and therefore the amounts in the above table represent his remuneration for 2017.

3 Simon Burke joined the Group in December 2016 and became a Non-executive Director in February 2017 and his fee was set at £70,000. On 20 October 2017 Simon Burke was appointed Chairman and his fee was increased to £200,000 p.a. The above reflects his fees for the whole of 2017.

4 Lydur Gudmundsson's fee was £40,000 until 19 October 2017 and then was increased to £70,000 p.a. with effect from 20 October 2017. In addition, given his unique expertise and insight into the Company's business as a founder of the Bakkavor Group, pursuant to an agreement between Lydur Gudmundsson and Bakkavor Iberica S.L., and a service agreement between Bakkavor Iberica S.L. and Bakkavor Holdings Limited, Lydur Gudmundsson will continue to be employed to provide consulting services to the Group for a fee of €230,000 per annum. The exchange rate used to convert to GBP for the above table is £1:€1.1408. Lydur Gudmundsson is also entitled to medical coverage in the UK for the benefit of his family. Lydur was eligible for Director fees, pension and life assurance in Iceland in 2017 disclosed in the 'other' column. These arrangements ceased as of 30 December 2017.

5 Pursuant to a pre-existing commitment with Bakkavor Holdings Limited, on 9 October 2017, Todd Krasnow was granted a cash bonus award in the amount of £500,000 payable immediately prior to Admission in recognition of his past services as a Non-executive Director of the Group since January 2016. Todd Krasnow has advised the Company that he intends to use the net cash amount (after taking account of any applicable tax and other charges) to purchase the Company's shares following Admission through open market purchases.

6 Robert Berlin receives no fee for his services.

7 Denis Hennequin joined the Group in November 2016 and became a Non-executive Director in February 2017 and his fee was set at £70,000. The above reflects his fees for the whole of 2017.

8 Sue Clark joined the Board on 20 October 2017 and her fee is £70,000 p.a.

9 For Executive Directors, taxable benefits include car allowance and private medical cover.

### 2017 Annual bonus (audited)

In 2017, employees were eligible for an annual discretionary cash bonus, whereby performance objectives were established at the beginning of the financial period by reference to suitably challenging corporate goals over the 12 month period.

The Committee has consistently set stretching corporate goals, which for 2017 comprised Group EBITDA and revenue for the Chief Executive Officer, and Group adjusted EBITDA, adjusted EBITDA margin, revenue growth and working capital for the Chief Financial Officer.

In 2017 the annual bonus performance-related outcomes were as follows:

#### Chief Executive Officer (maximum 67% of salary — £500,000)

| Metrics | Weighting | Threshold (0%) | Maximum (100%) | Actual performance | % outcome |
|---|---|---|---|---|---|
| Group adjusted EBITDA (pre CEO bonus provision) | 70% | £149.6m | £156.6m | £152.9m | 48% |
| Revenue | 30% | £1,822.0m | £1,839.5m | £1,814.8m | 0% |
| **Total (% of max)** | | | | | **34%** |

Bonus is payable on a straight-line basis for performance between threshold and maximum.

#### Chief Financial Officer (maximum 59% of salary — £275,000)

| Metrics | Weighting | Target (100%) | Actual performance | % outcome |
|---|---|---|---|---|
| Group adjusted EBITDA (pre performance bonus provision) | 25% | £164.6m | £156.5m | 0% |
| Adjusted EBITDA margin (pre performance bonus provision) | 25% | 8.6% | 8.6% | 100% |
| Revenue growth | 25% | 6% | 4.6% | 0% |
| Working capital | 25% | Positive inflow | £8.6m | 100% |
| **Total** | | | | **50%** |

For the Chief Financial Officer, the bonus plan comprised four measures each with a single hurdle. For 2018, a sliding scale of targets will apply to financial metrics.

The resulting annual bonus awards were as follows:

| | Financial performance related | | | Non-financial performance related | Total cash bonus |
|---|---|---|---|---|---|
| | Maximum opportunity % salary | Actual % of salary | Total awarded | Total awarded | Total awarded |
| Agust Gudmundsson | 67% | 22.7 | £170,000 | n/a | £170,000 |
| Peter Gates | 59% | 29.4 | £137,500 | £200,000 | £337,500 |

Consistent with the approach set prior to Admission, bonuses in relation to 2017 are paid entirely in cash and will become payable in early 2018.

### Long-Term Incentive Plan

#### Awards with performance periods ending in the year (audited)

There were no long-term incentive awards capable of vesting in relation to performance in the year.

#### Awards granted in the year

The Company granted a number of share options to employees since July 2017 prior to Admission, as set out in the prospectus. This included an award to Peter Gates under the Bakkavor Group Limited 2017 Long-Term Incentive Plan. These options were granted in anticipation of the IPO and therefore the face value of the options at that time are not available. Further details are set out below.

| | Date of grant | Number of awards | Exercise price | Vesting date | Expiry date |
|---|---|---|---|---|---|
| Peter Gates | 3 July 2017 | 1,222,515 | £0.764 | April 2020 | July 2027 |

The awards will vest following the publication of the Company's audited financial results for the 2019 financial year, subject to continued service and the satisfaction of the two conditions as set out below:

1. 50% vests in April 2020 provided a liquidity event (i.e. IPO or company sale) has occurred since the date of grant.
2. Provided that condition 1 above has been met a further 25% vests in April 2020 if EBITDA for financial year 2019 is at least £175 million and a further 25% vests on a sliding scale for EBITDA of between £175 million and £190 million.

# DIRECTORS' REMUNERATION REPORT CONTINUED

The awards were granted prior to IPO and do not form part of the future Remuneration Policy to be approved at the 2018 AGM. However, these awards will be able to vest on their original terms as agreed prior to policy approval.

### Payments to former Directors and for loss of office (audited)

No payments were made to former Directors of the Company or in relation to loss of office during the year.

### External directorships

None of the Executive Directors currently hold Non-executive Directorships at any other companies outside the Bakkavor Group.

## Statement of Directors' shareholdings and share interests (audited)

The share interests of each Director as at 30 December 2017 (together with interests held by his or her connected persons) are set out in the table below. As a direct link between executive remuneration and the interests of shareholders, the Committee has implemented shareholding guidelines for Executive Directors and key senior employees. The guidelines require that Executive Directors build up and maintain an interest in the ordinary shares of the Company that is 200% of their annual base salary, and retain half of any vested deferred bonus and Long-Term Incentive Plan awards (net of any taxes due) until this guideline is met.

Shareholdings for Directors who have held office during the period ended 30 December 2017 are set out as a percentage of salary or fees in the table below. During the period from 30 December 2017 to the publication of this report, there have been no changes in the Directors' share interests. None of the Directors hold any loans against their shares or otherwise use their shares as collateral.

| | Beneficially owned shares | | |
|---|---|---|---|
| | 30 December 2017 | Value of owned shares as a % of salary | Unvested shares with performance conditions |
| **Executive Directors** | | | |
| Agust Gudmundsson | 145,333,130 | 37,399% | – |
| Peter Gates[1] | nil | n/a | 1,222,515 |
| **Non-executive Directors** | | | |
| Simon Burke (Chairman) | 50,000 | n/a | – |
| Robert Berlin | n/a | n/a | – |
| Sue Clark | n/a | n/a | – |
| Lydur Gudmundsson | 145,333,130 | n/a | – |
| Denis Hennequin | n/a | n/a | – |
| Todd Krasnow | n/a | n/a | – |

1 Peter Gates was granted awards under the Company's pre-IPO share plan prior to Admission. Details of these awards are set out on page 67.

## Performance graph and table

The chart below shows the Company's TSR performance compared with that of the FTSE 250 Index (excluding investment trusts) over the period from the date of the Company's admission to the London Stock Exchange to 30 December 2017.

TSR is defined as the return on investment obtained from holding a company's shares over a period. It includes dividends paid, the change in the capital value of the shares and any other payments made to or by shareholders within the period.

### Total shareholder return

Source: Datastream (Thomson Reuters)


This graph shows the value, by 30 December 2017, of £100 invested in Bakkavor Group from the date of Admission compared with the value of £100 invested in the FTSE 250 excluding Investment Trusts on a daily basis.

## Aligning pay with performance

The total remuneration figure for the Chief Executive Officer in 2017 is shown in the table below, along with the value of bonuses paid, and Long-Term Incentive Plan vesting, as a percentage of the maximum opportunity.

| Chief Executive Officer | 2017 |
|---|---|
| Total remuneration (£000) | £1,063,000 |
| Actual bonus (% of the maximum) | 34% |
| LTIP vesting (% of the maximum) | N/A[1] |

1 No LTIP awards were eligible to vest over the period. The Chief Executive Officer does not participate in any share award schemes.

## Percentage change in remuneration of the Chief Executive Officer

As this is the first period reported since listing it is not possible to provide meaningful comparative data. However, full disclosure of the year-on-year movement will be provided in future remuneration reports.

## Relative importance of spend on pay

As the Company listed during 2017, there is no disclosure relating to the percentage change in dividend distributions between 2016 and 2017. However, full disclosure of the year-on-year movement will be provided in future remuneration reports.

## STATEMENT OF IMPLEMENTATION OF REMUNERATION POLICY IN 2018

### Annual base salary

The Committee reviews the Executive Directors' base salaries on an annual basis, with any increases taking effect from 1 January each year. Salaries were set at IPO and no increase is proposed for 2018. Base salaries effective from 1 January 2018 are set out below.

| | Base salary 2017 | Base salary 2018 |
|---|---|---|
| **Executive Directors** | | |
| Agust Gudmundsson | £750,000 | £750,000 |
| Peter Gates | £467,000 | £467,000 |

### Benefits and pension

No changes are proposed to the provision of pension and benefits for 2018. Executive Directors will continue to receive benefits that include family private medical insurance, life assurance, income protection, health screening and company car/car allowances. The Executive Directors will continue to receive a cash allowance in lieu of pension equal to 15% per annum for the Chief Executive Officer and 20% of base salary per annum for the Chief Financial Officer, in line with the policy.

### Bonus

The 2018 annual bonus maximum as a percentage of base salary is as follows:

| | Maximum 2018 |
|---|---|
| **Executive Directors** | |
| Agust Gudmundsson | 80% of salary |
| Peter Gates | 125% of salary |

For 2018, the annual bonus for the Executive Directors will comprise three elements as set out below which are all key performance indicators of the business.

- Adjusted EBITDA (50%)
- Revenue (25%)
- Free Cash Flow excl. development projects (25%)

It is not possible to disclose specific targets in advance as this would give a clear indication of the Group's business objectives, which are commercially sensitive. However, full details of the targets and performance against them will be disclosed in next year's Annual Report.

Awards will be subject to an underlying performance override enabling them to be scaled back to reflect the Group's underlying performance as well as malus and clawback.

In line with the Remuneration Policy, one-third of any bonus earned will be deferred for three years, conditional upon continued employment. Deferral for the Chief Executive Officer will be in cash (given his current shareholding), whereas the Chief Financial Officer's deferral will be in shares.

### Long-Term Incentive Plan

The Committee intends to grant awards of nil cost options under the Long-Term Incentive Plan to the Chief Financial Officer, in line with the policy set out in this report. Reflecting his founder status and his current shareholding, the current Chief Executive Officer does not participate in the Long-Term Incentive Plan.

The awards granted to the Chief Financial Officer will have a face value of 150% of salary, with the exact number of shares to be granted to be determined with reference to the prevailing share price around the date of grant.

Vesting of the 2018 awards will be contingent on the following performance measures (each measure applies to 50% of an award):

#### Adjusted Earnings per Share (EPS):

| Percentage of vesting of relevant portion of award* | Adjusted EPS In 2020 |
|---|---|
| 0% | Less than 16.5 pence |
| 25% | 16.5 pence |
| 100% | Equal to or more than 18.6 pence |

#### Total Shareholder Return (TSR):

| Percentage of vesting of relevant portion of award* | Relative TSR ranking against a bespoke group of companies for the period 1 January 2018 to 30 December 2020 |
|---|---|
| 0% | Below median |
| 25% | Median |
| 100% | Upper quartile |

* Vesting on a straight-line basis in between threshold and stretch

# DIRECTORS' REMUNERATION REPORT CONTINUED

The Remuneration Committee considered carefully an appropriate peer group for these awards. It was felt that a pan-sector group such as the FTSE 250 was not appropriate given the different types of companies in the index and that a group formed of pure UK food producers was too small. Therefore, a hybrid group has been chosen which includes food producers, beverage companies, food and drug retailers and a selection of restaurant and bar companies. The 2018 comparator group comprises:

| | | | | | |
|---|---|---|---|---|---|
| Associated British Foods | Cranswick | Fuller, Smith & Turner | McColl's Retail Group | Restaurant Group | Unilever |
| Barr (A G) | Dairy Crest Group | Greencore Group | Mitchells & Butlers | Sainsbury (J) | Wetherspoon (JD) |
| Booker Group | Devro | Greene King | Morrison (Wm) Supermarkets | SSP Group | Whitbread |
| Britvic | Diageo | Greggs | Ocado Group | Stock Spirits Group | DP Eurasia |
| Coca-Cola HBC AG | Domino's Pizza Group | Hilton Food Group | Premier Foods | Tate & Lyle | |
| Compass Group | E.I. Group | Marston's | PureCircle | Tesco | |

Awards are subject to a two-year holding period following the three-year performance period as well as malus and clawback. In addition, before an award vests the Committee must be satisfied that the underlying performance of the Group is satisfactory. The Committee believes that having a performance override is an important feature of the plan as it mitigates the risk of unwarranted vesting outcomes.

### Non-executive Directors' fees

Non-executive and Chairman fees for 2018 remain unchanged since Admission, and are as follows:

| | Fee |
|---|---|
| Chairman | £200,000 |
| Base Non-executive Director fee | £70,000 |

Notes:

Todd Krasnow's annual fee is £100,000 p.a.

Robert Berlin does not receive any fees for his role as Non-executive Director.

Given his unique expertise and insight into the Company's business as a founder of the Bakkavor Group, pursuant to an agreement between Lydur Gudmundsson and Bakkavor Iberica S.L., and a service agreement between Bakkavor Iberica S.L. and Bakkavor Holdings Limited, Lydur Gudmundsson is employed to provide consulting services to the Group for a fee of €230,000 per annum. Lydur Gudmundsson is also entitled to medical coverage in the UK for the benefit of his family.

No additional fee is payable to any Non-executive Directors for additional responsibilities such as serving on a committee of the Group Board. Each Non-executive Director is also entitled to reimbursement of reasonable expenses, including transatlantic travel expenses.

On behalf of the Board

**Denis Hennequin**
Chair of the Remuneration Committee

9 April 2018

## DIRECTORS' REPORT

The Directors present their report, together with the Group Financial Statements, for the year ended 30 December 2017.

### Directors' Report content

The Strategic Report, the Corporate Governance Report and the Directors' Remuneration Report are all incorporated by reference into this Directors' Report, and should be read as part of this report.

### Registered office

Bakkavor Group plc is incorporated as a public limited company and is registered in England with the registered number 10986940. Bakkavor Group plc's registered office is Fitzroy Place, 5th Floor, 8 Mortimer Street, London, W1T 3JJ. Our registrars are Equiniti Limited, located at Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA.

### Strategic Report

Section 414A of the Companies Act 2006 requires the Directors to present a Strategic Report in the Annual Report and Financial Statements. The information can be found on pages 4-36.

### Disclosures required pursuant to Listing Rule 9.8.4R

In compliance with the FCA's Listing Rules, the information in Listing Rule 9.8.4R to be included in the Annual Report and Accounts where applicable can be found on the following pages:

| Listing Rule | Detail | Page reference |
|---|---|---|
| 9.8.4R (1) (2), (5-14) (A) (B) | Not applicable | Not applicable |
| 9.8.4R (4) | Long-Term Incentive Schemes | Page 58 of the Directors' Remuneration Report |

### Corporate Governance statement

In compliance with the FCA's Disclosure Guidance and Transparency Rule 7.2.1, the required disclosures are set out in this Directors' Report and in the Corporate Governance Report.

### Management Report

For the purposes of the FCA's Disclosure Guidance and Transparency Rules 4.1.5R (2) and 4.1.8, this Directors' Report and the Strategic Report on pages 4-36 comprise the Management Report.

### Results

The results for the year ended 30 December 2017 are set out in the Financial Statements on page 82.

### Dividend

No dividend will be declared in respect of the financial year 2017. The Group has confirmed its intention that a dividend equivalent to 40% of Adjusted Profit after Tax for the financial year 2018 will be paid, with an interim payment in September 2018 of approximately one third of the expected total for the year.

### Articles of Association

The Group's Articles of Association ("the Articles") are available from the Group's website, or by writing to the General Counsel and Company Secretary at the Group's registered office. The Articles can also be obtained from the UK Registrar of Companies. The Articles may be amended by special resolution of the shareholders.

### Board of Directors

The powers of the Directors are set out in the Schedule of Matters Reserved for the Group Board which is available for review on the Company's website.

**Bakkavor Holdings Limited (formerly Bakkavor Group Limited)**

Registered number: 06215286

#### Directors in year

Simon Burke (appointed 1 February 2017)
Agust Gudmundsson (appointed 17 April 2007)
Robert Berlin (appointed 22 January 2016)
Lydur Gudmundsson (appointed 8 October 2009)
Denis Hennequin (appointed 1 February 2017)
Todd Krasnow (appointed 22 January 2016)

**Bakkavor Group plc**

Registered number: 10986940

#### Directors in year

Simon Burke (appointed 20 October 2017)
Agust Gudmundsson (appointed 28 September 2017)
Robert Berlin (appointed 28 September 2017)
Sue Clark (appointed 20 October 2017)
Peter Gates (appointed 20 October 2017)
Lydur Gudmundsson (appointed 20 October 2017)
Denis Hennequin (appointed 20 October 2017)
Todd Krasnow (appointed 20 October 2017)

# DIRECTORS' REPORT CONTINUED

### Directors' share interests

The interests of the Directors at 30 December 2017 and as at the date of the publication of this report were:

| | 30 December 2017 | | Date of publication of Annual Report | |
|---|---|---|---|---|
| Name | Number of shares | % of voting rights | Number of shares | % of voting rights |
| Simon Burke | 50,000 | 0.009% | 50,000 | 0.009% |
| Agust Gudmundsson | 145,333,130 | 25.1% | 145,333,130 | 25.1% |
| Lydur Gudmundsson | 145,333,130 | 25.1% | 145,333,130 | 25.1% |

### Directors' insurance and indemnities

Bakkavor has made qualifying third party provisions (as defined in the Companies Act 2006) for the benefit of its Directors. These provisions remain in force at the date of this Annual Report. In accordance with the Articles, and to the extent permitted by law, Bakkavor may indemnify its Directors out of its own funds to cover liabilities arising as a result of their office. Bakkavor holds Directors' and Officers' Liability Insurance cover for any claim brought against Directors or officers for wrongful acts in connection with their positions, but the cover does not extend to claims arising from dishonesty or fraud.

### Appointment and retirement of Directors

The rules governing the appointment and replacement of Directors are set out in the Articles and governed by the Governance Code, the Companies Act 2006 and related legislation. At the AGM, all Directors will offer themselves for election to the Group Board. Biographical details of all Directors are set out on pages 38 to 39. Subject to applicable law, the Articles and any directions given by special resolution, the business of the Group will be managed by the Group Board which may exercise all power of the Group.

### Share capital and capital structure

The Company's issued share capital as at the date of publication of the Annual Report is 579,425,585 ordinary shares of £0.02 each. Details of the Company's issued share capital are also shown in Note 31 to the Consolidated Financial Statements.

The Company has one class of ordinary shares which carries no right to fixed income. Each share is non-redeemable and carries equal voting rights and ranks for dividends and capital distributions, whether on a winding up or otherwise.

Details of employee share schemes are set out in Note 36 to the Consolidated Financial Statements.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles and prevailing legislation, other than as set out in the sections on controlling shareholders and lock-up arrangements below.

Under the Company's Articles, the Group Board has general and unconditional authority for each prescribed period to exercise all the powers of the Company to allot shares in the Company or to grant rights to subscribe for or to convert any security into shares in the Company in accordance with section 551 of the Companies Act 2006. A renewal of this authority will be proposed at the AGM on 23 May 2018. The Company will also seek authority to purchase its own shares within certain limits and as permitted by the Articles, at the AGM on 23 May 2018.

### Significant agreements and change of control

There are a number of agreements that take effect, alter or terminate upon a change of control of the Company such as commercial contracts, property lease arrangements and employees' share plans. None of these are considered to be significant in terms of their likely impact on the business of the Group as a whole.

The agreement which governs the Company's Term Loan and Revolving Credit Facilities ("Facilities Agreement") provides that, on a change of control, any lender may on notice cancel its commitments under the Facilities Agreement. In the event of a takeover, the exercise by the lenders under the Facilities Agreement of the right to cancel could have a significant impact on the business of the Group, as the outstanding amounts thereunder would become due and payable.

The Directors are not aware of any agreements between the Company and its Directors or employees that provide for compensation for loss of office or employment that occurs because of a takeover bid.

### Controlling shareholders

Shortly prior to the IPO, Bakk AL Holdings Limited (an entity in which Agust Gudmundsson and Lydur Gudmundsson each held a 50% interest) owned 59.5% and BP-PE5 L.L.C. ("BP-PE5"), an entity managed indirectly by the Baupost Group, owned 40.5% of the issued share capital of Bakkavor Holdings Limited (formerly Bakkavor Group Limited).

In anticipation of and following the IPO, the Group completed a reorganisation of its corporate structure. The reorganisation, which was contemplated in the prospectus published by the Group on 10 November 2017 in relation to its IPO, involved the transfer of the shares held by Bakk AL Holdings Ltd. first to Milu Trading Inc. (the common investment vehicle of Agust and Lydur Gudmundsson), and then to the separate corporate holding structures of each of Agust Gudmundsson (with the relevant shares in Bakkavor Group plc being held by Carrion Enterprises Limited) and Lydur Gudmundsson (with the relevant shares in Bakkavor Group plc being held by Umbriel Ventures Limited).

Following the IPO, Agust and Lydur Gudmundsson each indirectly held 25.1% of the issued share capital in Bakkavor Group plc and BP-PE5 held 24.8% of the issued share capital of Bakkavor Group plc.

## Lock-up arrangements

The Group has agreed that, subject to certain exceptions, during the period of 180 days from the date of the IPO, it would not, without the prior written consent of the Joint Global Co-ordinators and Peel Hunt, issue, offer, sell or contract to sell, or otherwise dispose of, directly or indirectly, or announce an offer of any shares (or any interest therein or in respect thereof) or enter into any transaction with the same economic effect as any of the foregoing.

Bakkavor's Selling Shareholders (Bakk AL Holdings Limited and BP-PE5) and its Directors agreed that, subject to certain exceptions, during the period of 180 days in respect of the Selling Shareholders, and 365 days in respect of the Directors, in each case from the date of the IPO, they will not, without the prior written consent of the Joint Global Coordinators and Peel Hunt, offer, sell or contract to sell, or otherwise dispose of, directly or indirectly, or announce an offer of any shares (or any interest therein in respect thereof) or enter into any transaction with the same economic effect as any of the foregoing.

## Relations with shareholders

The Group Board supports the aims of the Governance Code and the UK Stewardship Code to promote engagement and interaction between listed companies and their major shareholders.

The Group Board welcomes the opportunity for investors and shareholders to engage directly with the Chairman and Senior Independent Director in addition to the Chief Executive Officer and Chief Financial Officer. An appropriate range of investor relations events around the publication of the full-year and half-year results has been scheduled in 2018, and the Head of External Affairs will manage this process, including updates to the Group Board.

## AGM

The AGM will be held on 23 May 2018 and is an opportunity for shareholders to vote on aspects of the business in person. The Group Board values the AGM as an opportunity to meet with shareholders and to take their questions. Full details of the resolutions to be proposed at the AGM, shareholders' rights with respect to attendance, participation in the meeting and the process for submission of proxy votes in advance of the meeting will be set out in the Notice of AGM.

Additional information for shareholders is contained on our website https://www.bakkavor.com/investors/shareholder-information.agm

## Major interests in shares

The Group has been notified in accordance with the FCA's Disclosure Guidance and Transparency Rules, or was otherwise aware, that the following held, or were beneficially interested in, 3% or more of Bakkavor's issued ordinary shares:

| | 30 December 2017 | | Date of publication of Annual Report | |
|---|---|---|---|---|
| Name | Number of ordinary shares | % of voting rights | Number of ordinary shares | % of voting rights |
| Carrion Enterprises Limited (corporate holding structure of Agust Gudmundsson) | 145,333,130 | 25.1 | 145,333,130 | 25.1 |
| Umbriel Ventures Limited (corporate holding structure of Lydur Gudmundsson) | 145,333,130 | 25.1 | 145,333,130 | 25.1 |
| BP-PE5 L.L.C (the Baupost Group) | 143,902,928 | 24.8 | 143,902,928 | 24.8 |

## Employees with disabilities

Applications for employment by prospective employees with disabilities are always fully considered. On occasions where existing employees develop a disability, every effort is made to ensure that their employment with the Group continues, and any reasonable adjustments are made and appropriate training is provided. It is the policy of the Group that the training, career development and promotion of employees with disabilities should, as far as possible, be the same as that of our other employees.

## Employee consultation

The Group places considerable value on the involvement of its employees, and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Group. It does this through a formal process of SEFs where representatives meet annually with the Chief Executive Officer to review business performance. The Group also works closely with Union representatives on recognised sites. Employee feedback is sought on a regular basis via the 'all Employee Engagement Survey' and this is used to develop site specific action plans. Formal briefing processes occur at each location and are supported by the Company magazine, which includes highlights of the Group's latest published financial results.

# DIRECTORS' REPORT CONTINUED

### Charitable donations
Bakkavor supports a number of national and local causes with the chosen charities for 2017 being The Prince's Trust and The Prince's Countryside Fund. In addition, our employees raise money at each factory site for local causes of their choice.

Bakkavor aims to promote economic and social wellbeing around all of our locations and is active in supporting local community projects and initiatives, including supporting a number of local schools and investing in young talent.

### Political donations
No political donations were made during the financial year.

### Going concern
Bakkavor's business activities, together with factors likely to affect its future development, performance and position, are set out in the Strategic Report on pages 4 to 36. The financial position of the Company, its cash flows, liquidity position and borrowing facilities, as well as the Company's objectives, policies and processes for managing capital, are described on pages 26 to 28 and in Note 30. Financial risk management objectives, and exposures to credit risk and liquidity risk are described in Note 30. The Directors consider that the Company's business activities and financial resources ensure that it is well placed to manage its business risks successfully.

The Directors are satisfied that:

- The Company's activities are sustainable for the foreseeable future, and that the business is a going concern
- It is appropriate to continue to adopt a going concern basis in the preparation of the Financial Statements

### Viability statement
In line with Provision C.2.2 of the Governance Code, the Directors have carried out a rigorous review of the prospects of the current business, and its ability to meet its liabilities as they fall due over the medium term. Whilst the Group has a longer-term financing structure in place with the first debt maturity being June 2021, the business operates in a fast-moving sector with a high level of products introduced each year. The Group has to adapt to meet the changing needs of customers and consumers, therefore the Directors concluded that a three-year time frame is an appropriate period for this assessment, as this is the period over which the Directors can realistically set the strategic plan for the Group.

The Directors assessed the principal risks to the business as set out in the 'Risk Management' section on pages 21 to 25 of the Annual Report, and the key mitigating actions used to address them.

As a food producing business, food safety and integrity are of paramount importance, and while each of the principal risks and uncertainties could have an impact on the Group's performance, it was considered that risks such as the vulnerability of the Group's cost base and margin to fluctuations in the price and availability of raw materials, the impact of higher labour costs, and scarcity of labour, and any breakdown or failure in the Group's information technology systems would most likely threaten the Group's longer-term viability.

For each of the principal risks, action plans have been developed to mitigate the risk with a clear allocation of responsibilities for mitigation and the timescales for completion. Based on the results of this analysis, the Directors have concluded that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period of their assessment.

### Directors' statement as to the disclosure of information to the Auditor
So far as each person who was a Director at the date of approving this report is aware, there is no relevant audit information, being information needed by the Auditor in connection with preparing their report, of which the Auditor is unaware. Each Director has taken all the steps that he or she is obliged to take as a Director in order to make himself or herself aware of any relevant audit information, and to establish that the Company's Auditor is aware of that information. This confirmation is given pursuant to section 418 of the Companies Act 2006 and should be interpreted in accordance with and subject to these provisions.

### Subsequent events
Please refer to Note 39 of the Financial Statements.

**Simon Witham**
General Counsel and Company Secretary

9 April 2018

# STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law, the Directors are required to prepare the Group Financial Statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have also chosen to prepare the Company Financial Statements in accordance with the Financial Reporting Standard 101 *Reduced Disclosure Framework*.

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 Group and the Company, and of the profit or loss of the Group and Company for that period.

In preparing the Company Financial Statements, the Directors are required to:

- Select suitable accounting policies and apply them consistently
- State whether the Financial Reporting Standard 101 *Reduced Disclosure Framework* has been followed, subject to any material departures disclosed and explained in the Financial Statements
- Make judgements and accounting estimates that are reasonable and prudent
- Prepare the Financial Statements on a going concern basis, unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group 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 are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance
- Make an assessment of 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 and Company's transactions, and to disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the Financial Statements and the Directors' Remuneration Report comply with the Companies Act 2006.

The Directors are also responsible for safeguarding the assets of the Group and Company, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

### Responsibility statement

We confirm that to the best of our knowledge:

- The Financial Statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the Company and the undertakings included in the consolidation taken as a whole
- The Strategic Report includes a fair review of the development and performance of the business and the position of the Group and the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face
- The Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group and Company's performance, business model and strategy.

On behalf of the Group Board

**Agust Gudmundsson**

Chief Executive Officer

9 April 2018

# AUDITOR'S REPORT

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BAKKAVOR GROUP PLC

### Report on the audit of the Financial Statements

#### Opinion

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 30 December 2017 and of the Group's profit for the period then ended;
- the Group Financial Statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Parent Company Financial Statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation.

We have audited the Financial Statements of Bakkavor Group plc (the 'Parent Company') and its subsidiaries (the 'Group') which comprise:

- the Consolidated income statement;
- the Consolidated statement of comprehensive income and expense;
- the Consolidated and Parent Company statements of financial position;
- the Consolidated and Parent Company statements of changes in equity;
- the Consolidated cash flow statement; and
- the related Notes 1 to 41 of the Consolidated Financial Statements and notes 1 to 9 of the Parent Company Financial Statements.

The financial reporting framework that has been applied in the preparation of the Group Financial Statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company Financial Statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the Financial Statements section of our report.

We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the Financial Statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Summary of our audit approach

| | |
|---|---|
| **Key audit matters** | The key audit matters that we identified in the current period were:<br>• valuation of the Group's accruals for volume related rebates; and<br>• the risk of impairment of tangible and intangible assets in the US. |
| **Materiality** | The materiality that we used in the current period was £4.5m, which was determined on the basis of adjusted profit before tax. |
| **Scoping** | Our Group audit scope has been designed to focus on the risks identified across the Group with audit procedures covering 83% of adjusted profit before tax, 87% of net assets and 72% of revenue. Our work has included visiting 10 out of 39 locations across the Group. |

### Conclusions relating to principal risks, going concern and viability statement

**Going concern**

We have reviewed the Directors' statement in Note 2 to the Financial Statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's and Parent Company's ability to continue to do so over a period of at least 12 months from the date of approval of the Financial Statements.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

| | |
|---|---|
| **Principal risks and viability statement**<br>Based solely on reading the Directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the Directors' assessment of the Group's and the Parent Company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:<br>• the disclosures on pages 21-25 that describe the principal risks and explain how they are being managed or mitigated;<br>• the Directors' confirmation on page 74 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or<br>• the Directors' explanation on page 74 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.<br>We are also required to report whether the Directors' statement relating to the prospects of the Group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledgde obtained in the audit. | We confirm that we have nothing material to report, add or draw attention to in respect of these matters. |

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### Valuation of the Group's accruals for volume related rebates

| | |
|---|---|
| **Key audit matter description** | The Group provides incentives to customers in the form of volume related rebates, marketing and promotional funding, discounts or lump sum incentives ("customer deductions"). As described in the accounting policies these are treated as a reduction in revenue. The customer deduction arrangements with customers are accounted for at both site and at Group level. The site level arrangements have limited complexity and do not require significant judgement. However, Group level accruals for volume related rebate arrangements that cover multiple sites and product categories are more complex. Accruals are made under these arrangements based on how likely it is that the criteria set out in the arrangement will be met and may rise as a proportion of sales as higher quantities are sold.<br>There is complexity in the accruals for volume related rebates that gives rise to management judgement and scope for fraud and error in the accounting for these balances.<br>Judgement is required in estimating the expected level of rebates for the rebate year, driven by the forecast sales volumes and ongoing negotiations with the Group's customers. There is judgement over the contractual relationships that the Group has with its customers.<br>Further details are included in the Audit Committee report on page 48 (as they are considered a significant judgement) and the Accounting Policies in Notes 2 and 3 to the Financial Statements. |

# AUDITOR'S REPORT CONTINUED

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BAKKAVOR GROUP PLC CONTINUED

| | |
|---|---|
| **How the scope of our audit responded to the key audit matter** | The following procedures have been designed and performed in order to respond to the key matter outlined above:<br>• we assessed the design and implementation of controls over the customer deduction process, including the process for matching amounts accrued with amounts claimed by the customer;<br>• we reviewed correspondence with the customers and minutes of meetings held;<br>• we assessed the adequacy of the accruals made in the current period by reviewing the agreements with customers and determining whether the accrual has been calculated using the terms and conditions of the relevant arrangements or latest status of customer negotiations;<br>• we assessed the appropriateness of forecasts made by management which underpin the calculation of the accruals;<br>• we retrospectively reviewed the historical accuracy of the accruals made and compared to amounts subsequently settled; and<br>• we assessed the disclosures of these arrangements in the Financial Statements. |
| **Key observations** | Whilst we identified some prudence in the Group's estimation methodology for amounts to be accrued, we concurred with management that the revenue recognition approach in the Financial Statements was appropriate. |

### The risk of impairment of tangible and intangible assets in the US

| | |
|---|---|
| **Key audit matter description** | The Group has goodwill of £647.2m, as set out in Note 15 to the Financial Statements. The Group has one cash-generating unit ("CGU"), the US, where reasonably possible changes in financial performance could result in impairment. At 30 December 2017, the Group recognised goodwill and intangibles of £48.3m and tangible assets of £14.9m in relation to this CGU.<br>The US CGU has a relatively low level of headroom and the highest sensitivity to the underlying assumptions. Further details are included in Note 15.<br>The key audit matter identified is in respect of management's judgements in relation to the value in use calculation for the cash-generating unit to which the assets relate. Specifically, the key audit matter is focused on the underlying assumptions used in determining the recoverable value of the assets such as discount rates, growth rates and longer-term financial performance.<br>These items are all subjective and could lead to an impairment charge if incorrect. Due to the judgemental nature of the assumptions, a fraud risk has been identified due to the risk of bias within assumptions adopted.<br>This matter has been identified by management within the Audit and Risk Committee report on page 48 and disclosed as a critical accounting judgement within Note 3 to the Financial Statements. |
| **How the scope of our audit responded to the key audit matter** | The following procedures have been designed and performed in order to assess the reasonableness of the key assumptions and the estimates of future cash flows for the underlying business:<br>• we assessed the design and implementation of controls over the intangible and tangible fixed asset impairment review process;<br>• we compared the actual results to forecast to assess historical forecasting accuracy;<br>• we considered whether the implied earnings multiple indicates bias within management's forecasts;<br>• we used internal valuation experts to determine whether management's discount rate is appropriate;<br>• we performed sensitivity analysis by reducing cash inflows and increasing the discount rate; and<br>• we assessed the disclosures relating to the impairment review in the Financial Statements. |

| | |
|---|---|
| **Key observations** | From our work on this key audit matter we have noted that:<br>• the discount rate used by management to estimate the recoverable value of the CGU falls within our expected range based on the independent analysis completed; and<br>• the earnings multiples inferred from the cash flow forecasts fall within the range of comparative peer group entities operating within the same market.<br>We have gained sufficient assurance that the underlying assumptions for the US CGU are reasonable and supportable at the assessment date. |

## Our application of materiality

We define materiality as the magnitude of misstatement in the Financial Statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the Financial Statements as a whole as follows:

| | |
|---|---|
| **Group materiality** | £4.5m |
| **Basis for determining materiality** | 5% of adjusted profit before tax.<br>Adjusted profit before tax is defined as profit before tax adjusted for financing costs and other gains and losses (arising from the financing structure prior to the March 2017 refinancing) and exceptional items. |
| **Rationale for the benchmark applied** | We consider that a profit benchmark is appropriate in determining materiality given investor focus on the performance of the business. We have used adjusted profit before tax which reflects the underlying performance of the business and reduces the risk of volatility. |

We agreed with the Audit and Risk Committee that we would report to the Committee all audit differences in excess of £0.23m, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit and Risk Committee on disclosure matters that we identified when assessing the overall presentation of the Financial Statements.

## An overview of the scope of our audit

Our Group audit scope has been designed to focus on the risks identified across the Group with audit procedures covering 83% of adjusted profit before tax, 87% of net assets and 72% of revenue. Our work has included visiting 10 locations out of 39 across the Group using component materiality of up to £2.0m. Nine of these locations were in the UK and we determined that four of these sites were significant.

Our audit work has included the use of a component auditor, which forms part of the Deloitte member firm network. We planned and reviewed the component auditor's work, issuing instructions to them and evaluating the results of the work performed; this included a visit to the component during the period. The parent company materiality was £4.3m, determined on the basis of 2% of net assets and capped at 95% of group materiality. The parent company is non-trading and acts as a holding company.

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, we focused our Group audit scope primarily on the audit work at 10 locations.

At the Group's head office we tested the consolidation process and carried out analytical procedures to confirm our assessment that there were no significant risks of material misstatement of the remaining components not subject to audit or review procedures.

# AUDITOR'S REPORT CONTINUED

The Parent Company was incorporated on 28 September 2017 and on 10 November 2017 acquired the Group headed by Bakkavor Holdings Limited (formerly Bakkavor Group Limited).

As the Parent Company was not a business at the time of the acquisition, merger accounting has been applied and the results presented by the Group are for the 52 weeks ended 30 December 2017.

## Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report including the Strategic Report and the Directors' Report, other than the Financial Statements and our auditor's report thereon.

Our opinion on the Financial Statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Financial Statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- *fair, balanced and understandable* – the statement given by the Directors that they consider the Annual Report and Financial Statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- *Audit and Risk Committee reporting* – the section describing the work of the Audit and Risk Committee does not appropriately address matters communicated by us to the Audit and Risk Committee; or
- *Directors' statement of compliance with the UK Corporate Governance Code* – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

## Responsibilities of Directors

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, and for such internal control as the Directors determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing as applicable matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

A further description of our responsibilities for the audit of the Financial Statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

## Use of our report

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.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

### Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial period for which the Financial Statements are prepared is consistent with the Financial Statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and of the Parent Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

### Matters on which we are required to report by exception

**Adequacy of explanations received and accounting records**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have nothing to report in respect of these matters.

**Directors' remuneration**

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns

We have nothing to report in respect of these matters.

### Other matters

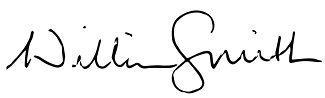
**Auditor tenure**

The Company was incorporated on 28 September 2017 and acquired the Group headed by Bakkavor Holdings Limited. Following the recommendation of the Audit and Risk Committee, we were appointed by the Board of Directors on 11 December 2017 to audit the Financial Statements for the period ending 30 December 2017 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm to the Company is one year, covering the period to 30 December 2017.

Prior to our appointment to the Company we have been the auditor of the Group headed by Bakkavor Holdings Limited. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 13 years, covering the periods ending 31 December 2005 to 30 December 2017.

**Consistency of the audit report with the additional report to the Audit and Risk Committee**

Our audit opinion is consistent with the additional report to the Audit and Risk Committee we are required to provide in accordance with ISAs (UK).



**William Smith MA FCA (Senior statutory auditor)**

For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom

9 April 2018

# CONSOLIDATED INCOME STATEMENT

52 WEEKS ENDED 30 DECEMBER 2017

| £ million | Notes | 52 weeks ended 30 December 2017 Underlying activities | Other items[1] (Note 7) | Total | 53 weeks ended 31 December 2016 Underlying activities | Other items[1] (Note 7) | Total |
|---|---|---|---|---|---|---|---|
| **Continuing operations** | | | | | | | |
| Revenue | 4,5 | 1,814.8 | – | 1,814.8 | 1,763.6 | – | 1,763.6 |
| Cost of sales | | (1,329.1) | – | (1,329.1) | (1,275.9) | – | (1,275.9) |
| **Gross profit** | | 485.7 | – | 485.7 | 487.7 | – | 487.7 |
| Distribution costs | | (77.2) | – | (77.2) | (78.0) | – | (78.0) |
| Other administrative costs | | (297.5) | (15.4) | (312.9) | (302.8) | (16.2) | (319.0) |
| Profit on disposal of subsidiary | 32 | – | – | – | – | 0.1 | 0.1 |
| Share of results of associates after tax | 19 | 0.6 | – | 0.6 | 0.7 | – | 0.7 |
| **Operating profit/(loss)** | | 111.6 | (15.4) | 96.2 | 107.6 | (16.1) | 91.5 |
| Investment revenue | 5,9 | – | – | – | 0.1 | – | 0.1 |
| Finance costs | 10 | (21.8) | (13.2) | (35.0) | (36.6) | (2.2) | (38.8) |
| Other gains and (losses) | 11 | (5.0) | (17.2) | (22.2) | 3.8 | 6.5 | 10.3 |
| **Profit/(loss) before tax** | | 84.8 | (45.8) | 39.0 | 74.9 | (11.8) | 63.1 |
| Tax (charge)/credit | 12 | (14.3) | 6.3 | (8.0) | (13.7) | 1.4 | (12.3) |
| **Profit/(loss) for the period from continuing operations** | | 70.5 | (39.5) | 31.0 | 61.2 | (10.4) | 50.8 |
| **Discontinued operations** | | | | | | | |
| Profit for the period from discontinued operations | 13,32 | – | – | – | – | 0.5 | 0.5 |
| **Profit/(loss) for the period attributable to equity holder of the parent company** | 6 | 70.5 | (39.5) | 31.0 | 61.2 | (9.9) | 51.3 |
| | | | | | | | |
| **Earnings per share** | | | | | | | |
| From continuing operations | | | | | | | |
| Basic and diluted | 14 | | | 5.8p | | | 8.8p |
| | | | | | | | |
| From continuing and discontinued operations | | | | | | | |
| Basic and diluted | 14 | | | 5.8p | | | 8.9p |

1 The Group presents its income statement with three columns. The Directors consider that the underlying activities results better represent the ongoing operations and key metrics for the Group. Other items include exceptional items, impairment of assets, disposals of subsidiaries and associates, one-off finance costs relating to redemptions and other refinancing activities and fair value adjustments relating to items, which are considered significant in nature and are important to users in understanding the business. Details of the alternative performance measures that the Group uses can be found in Note 41.

The notes to the accounts form an integral part of the Consolidated Financial Statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME AND EXPENSE

52 WEEKS ENDED 30 DECEMBER 2017

| £ million | Notes | 52 weeks ended 30 December 2017 | 53 weeks ended 31 December 2016 |
|---|---|---|---|
| **Profit for the period** | | 31.0 | 51.3 |
| **Other comprehensive income/(expense)** | | | |
| **Items that will not be reclassified subsequently to profit or loss:** | | | |
| Actuarial gain/(loss) on defined benefit pension schemes | 37 | 12.3 | (7.6) |
| Tax relating to components of other comprehensive income | 12 | (2.1) | 1.4 |
| | | 10.2 | (6.2) |
| **Items that may be reclassified subsequently to profit or loss:** | | | |
| Exchange differences on translation of foreign operations | | (7.6) | 16.5 |
| Net exchange gains recycled to income statement on disposal of subsidiaries | | – | (2.5) |
| | | (7.6) | 14.0 |
| **Total other comprehensive income** | | 2.6 | 7.8 |
| **Total comprehensive income** | | 33.6 | 59.1 |

The notes to the accounts form an integral part of the Consolidated Financial Statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 DECEMBER 2017

| £ million | Notes | 30 December 2017 | 31 December 2016 |
|---|---|---|---|
| **Non-current assets** | | | |
| Goodwill | 15 | 647.2 | 651.5 |
| Other intangible assets | 16 | 2.6 | 3.6 |
| Property, plant and equipment | 17 | 337.5 | 304.5 |
| Interests in associates | 19 | 12.0 | 13.3 |
| Other investments | 20 | 0.1 | 0.1 |
| Deferred tax asset | 26 | 3.2 | 1.6 |
| Retirement benefit asset | 37 | 5.2 | – |
| Derivative financial instruments | 25 | 0.1 | 0.3 |
| | | 1,007.9 | 974.9 |
| **Current assets** | | | |
| Inventories | 21 | 54.8 | 59.2 |
| Trade and other receivables | 22 | 147.9 | 190.7 |
| Cash and cash equivalents | 23 | 20.9 | 22.5 |
| Derivative financial instruments | 25 | 1.6 | 2.8 |
| | | 225.2 | 275.2 |
| **Total assets** | | 1,233.1 | 1,250.1 |
| **Current liabilities** | | | |
| Trade and other payables | 28 | (393.4) | (432.1) |
| Current tax liabilities | | (3.7) | (4.6) |
| Borrowings | 24 | (1.5) | (12.9) |
| Obligations under finance leases | 27 | (0.8) | (0.7) |
| Provisions | 29 | (3.1) | (3.4) |
| Derivative financial instruments | 25 | (0.6) | – |
| Deferred income | | (0.7) | (0.7) |
| | | (403.8) | (454.4) |
| **Non-current liabilities** | | | |
| Trade and other payables | 28 | (0.4) | (0.4) |
| Borrowings | 24 | (282.1) | (371.8) |
| Obligations under finance leases | 27 | (3.1) | (4.0) |
| Provisions | 29 | (14.6) | (11.2) |
| Derivative financial instruments | 25 | (0.2) | (0.1) |
| Deferred tax liabilities | 26 | (16.6) | (16.6) |
| Retirement benefit obligation | 37 | – | (10.0) |
| Deferred income | | (2.2) | (2.8) |
| | | (319.2) | (416.9) |
| **Total liabilities** | | (723.0) | (871.3) |
| **Net assets** | | 510.1 | 378.8 |
| **Equity** | | | |
| Share capital | 31 | 11.6 | 1.0 |
| Share premium | 31 | 366.1 | – |
| Merger reserve | 31 | (130.9) | 54.9 |
| Capital reserve | 31 | – | 98.8 |
| Translation reserve | 31 | 26.1 | 33.7 |
| Retained earnings | | 237.2 | 190.4 |
| **Total equity** | | 510.1 | 378.8 |

The Financial Statements of Bakkavor Group plc and the accompanying notes, which form an integral part of the Consolidated Financial Statements, were approved by the Board of Directors on 9 April 2018. They were signed on behalf of the Board of Directors by:

**A Gudmundsson**
Chief Executive Officer

**P Gates**
Chief Financial Officer

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

52 WEEKS ENDED 30 DECEMBER 2017

| £ million | Equity attributable to owners of the parent | | | | | | |
|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Merger reserve | Capital reserve | Translation reserve | Retained earnings | **Total equity** |
| **Balance at 27 December 2015** | 1.2 | – | 54.9 | 98.6 | 19.7 | 179.1 | **353.5** |
| Profit for the period | – | – | – | – | – | 51.3 | **51.3** |
| Other comprehensive income/(expense) for the period | – | – | – | – | 14.0 | (6.2) | **7.8** |
| Total comprehensive income for the period | – | – | – | – | 14.0 | 45.1 | **59.1** |
| Share buyback | (0.2) | – | – | 0.2 | – | (33.8) | **(33.8)** |
| **Balance at 31 December 2016** | 1.0 | – | 54.9 | 98.8 | 33.7 | 190.4 | **378.8** |
| Profit for the period | – | – | – | – | – | 31.0 | **31.0** |
| Other comprehensive income/(expense) for the period | – | – | – | – | (7.6) | 10.2 | **2.6** |
| Total comprehensive income/(expense) for the period | – | – | – | – | (7.6) | 41.2 | **33.6** |
| Issue of share capital (Note 31) | 10.6 | 374.1 | – | – | – | – | **384.7** |
| Share issue costs (Note 31) | – | (8.0) | – | – | – | 4.6 | **(3.4)** |
| Movement in merger reserve due to corporate restructure (Note 31) | – | – | (185.8) | (98.8) | – | – | **(284.6)** |
| Credit for share-based payments (Note 36) | – | – | – | – | – | 0.8 | **0.8** |
| Deferred tax on share schemes | – | – | – | – | – | 0.2 | **0.2** |
| **Balance at 30 December 2017** | **11.6** | **366.1** | **(130.9)** | **–** | **26.1** | **237.2** | **510.1** |

The notes to the accounts form an integral part of the Consolidated Financial Statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

52 WEEKS ENDED 30 DECEMBER 2017

| £ million | Notes | 52 weeks ended 30 December 2017 | 53 weeks ended 31 December 2016 |
|---|---|---|---|
| **Net cash generated from operating activities** | 33 | **93.4** | 112.1 |
| **Investing activities:** | | | |
| Interest received | | **–** | 0.1 |
| Dividends received from associates | | **0.7** | 0.3 |
| Purchases of property, plant and equipment | | **(79.1)** | (67.3) |
| Proceeds on disposal of property, plant and equipment | | **2.5** | 0.1 |
| Disposal of subsidiary net of cash disposed of | | **–** | 2.4 |
| **Net cash used in investing activities** | | **(75.9)** | (64.4) |
| **Financing activities:** | | | |
| Proceeds on issue of shares (net) | 31 | **96.6** | – |
| Share buyback | | **–** | (33.8) |
| Increase in borrowings | | **325.0** | – |
| Repayments of borrowings | | **(439.4)** | (90.0) |
| Repayments of obligations under finance leases | | **(0.8)** | (0.5) |
| **Net cash used in financing activities** | | **(18.6)** | (124.3) |
| **Net decrease in cash and cash equivalents** | | **(1.1)** | (76.6) |
| Cash and cash equivalents at beginning of period | | **22.5** | 97.0 |
| Effect of foreign exchange rate changes | | **(0.5)** | 2.1 |
| **Cash and cash equivalents at end of period** | | **20.9** | 22.5 |

The notes to the accounts form an integral part of the Consolidated Financial Statements.

## 1. GENERAL INFORMATION

The Company was incorporated as a public limited company on 28 September 2017. On 9 October 2017 the Company's name was changed from Diamond Newco plc to Bakkavor Group plc.

The Company acquired, by way of share for share exchange, the entire issued share capital of Bakkavor Holdings Limited on 10 November 2017. Under IFRS, the Group reconstruction is treated as a common control transaction, for which there is no specific accounting guidance. Consequently, the Board of Directors have had regard to the guidance in IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' on the selection of accounting policies. The integration of the Company has been accounted for using merger accounting principles. The policy, which does not conflict with IFRS, reflects the economic substance of the transaction.

The adoption of merger accounting presents the Company as if it had always been the parent undertaking of the Group. As the Company was not incorporated until 28 September 2017, the consolidated results and details of the financial position prior to this date reflect those presented previously as the results and financial position of Bakkavor Holdings Limited, the former parent of the Group.

The Company became listed on the London Stock Exchange on 16 November 2017 as part of an Initial Public Offering (also referred to as public listing in these Financial Statements). The Company's subsidiaries, both direct and indirect, at this date are listed in Note 5 to the Company only Financial Statements.

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

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 7 | Disclosure initiative |
| IAS 12 | Recognition of Deferred Tax Assets for Unrealised Losses |

At the date of authorisation of these Financial Statements, the following Standards and Interpretations relevant to the Group 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 |
| IFRS 15 | Revenue from Contracts with Customers |
| IFRS 16 | Leases |

Amendments:

| | |
|---|---|
| IFRS 2 | Classification and Measurement of Share-based Payment Transactions |
| IFRS 15 | Clarifications to IFRS 15 'Revenue from Contracts with Customers' |
| IFRIC 22 | Foreign Currency Transactions and Advance Consideration |
| Various | Annual Improvements to IFRS Standards 2014–2016 cycle |
| Various | IFRS 10, IFRS 12 and IAS 28: Investment Entities, Applying the Consolidation Exception |

With the exception of IFRS 9 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 but at this time it is not practical to quantify the future impact as further work is required to be conducted to complete the review and complete the assessment.

Management's preliminary assessment is that the adoption of IFRS 15 will have no material impact on the current revenue recognition under IAS 18 'Revenue'. The principal reason for this is that the Group only has an enforceable right to bill once the product is delivered to the customer. Further work is still required to complete the assessment of the impact of IFRS 15 on the Group and to put in place processes to capture the additional disclosures required under IFRS 15.

The implementation of IFRS 16 will require the recognition of the Group's operating leases (with the exception of short-term and immaterial leases) in the statement of financial position. Furthermore, it is expected that operating profit will increase alongside an increase in finance costs resulting from the unwind of the lease liability. Initial assessments of the impact of IFRS 16 are ongoing and therefore it is not practicable to provide a quantification of the impact on the Financial Statements. Details of the Group's operating lease arrangements are included in Note 35.

# 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 (which are stated at fair value) and the valuation of the retirement benefit asset/obligation. The deferred tax liability as at 31 December 2016 has been grossed up to show the deferred tax asset of £1.6 million on the face of the statement of financial position in order to comply 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 April 2019.

The Directors, in their detailed consideration of going concern, have reviewed the Group's future revenue projections and cash requirements, which they believe are based on prudent interpretations of market data and past experience. The Directors have also considered the Group's level of available liquidity under its financing arrangements and consider that adequate headroom is available based on the forecasted cash requirements of the business.

Consequently, the Directors consider that the Company and 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 52 or 53-week period ending on the Saturday nearest to 31 December. Where the fiscal year 2017 is quoted in these Financial Statements this relates to the 52-week period ended 30 December 2017. The fiscal year 2016 relates to the 53-week period ended 31 December 2016.

### 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 Group 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 Group.

### 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 that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. The subsequent accounting for changes in fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39 or IAS 37, as appropriate.

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

### Goodwill

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

Goodwill is assumed to have an indefinite life as the acquired business is expected to trade for the foreseeable future and therefore goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the cash-generating units (CGUs) or groups of CGUs expected to benefit from the synergies of the combination. CGUs or groups of CGUs to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired.

If the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

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

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

### 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 13.

### 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.

### Customer deductions

Consistent with standard industry practice, the Group has arrangements with its customers providing volume-related rebates, marketing and promotional funding contributions, discounts or lump sum incentives. These costs are recognised as a reduction to revenue as they are considered to be an adjustment to the selling price for the Group's products. Sometimes the payment of this support is subject to the Group's customers performing specified actions or satisfying certain performance conditions associated with the purchase of products from the Group. These include achieving agreed purchase volume targets and providing promotional marketing materials/activities. Whilst there is no standard definition, these amounts payable to customers are generally termed as "customer deductions".

The Group recognises these costs as a deduction from revenue based upon the terms of the relevant arrangement in place. Amounts payable relating to customer deduction arrangements are recognised within accruals except in cases where the Group has a legal right of set-off and intends to offset against amounts due from that customer.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 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.

### 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.

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 and updated products. Expenditure on research and development, where development costs do not meet the recognition criteria of IAS 38, is recognised as an expense in the period in which it is incurred.

### Exceptional items

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

### Operating profit

Operating profit is stated after charging exceptional items, impairment of assets, profit/loss on the 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 and hence the Group has no legal or constructive obligations to pay further contributions. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as employee service is received. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme.

#### Defined benefit pension plans

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

For defined benefit schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each statement of financial position date. Remeasurement, comprising actuarial gains and losses, the effect of changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), are recognised outside of the income statement and presented in the statement of comprehensive income.

Defined benefit cost are categorised as follows:

- Service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);
- Net interest expense or income; and
- Remeasurement

Past service costs are recognised in profit or loss on the earlier of:

- The date of the plan amendment or curtailment; and
- The date that the Group recognises restructuring-related costs or termination benefits

The Group recognises the first two components of defined benefit costs in the income statement.

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

### Share-based payments

An expense is to be recognised for goods or services acquired in a share based transaction when the goods are obtained or the service received. The credit will be booked as either a liability or equity depending on the type of share-based payment.

Equity- settled share-based payment transactions are transactions where Group shares are issued as consideration for goods or services. They are measured in the income statement at the fair value of the equity instrument granted at the date of grant with the corresponding amount booked to equity. The fair value determined at the grant date of equity-settled share-based payments is expensed on a straight line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. The fair value calculation should reflect market based performance conditions. The total expense will be reduced by estimates of options that will not vest (due to leavers or not meeting non-market based performance criteria). Estimates of non-vesting are to be recalculated at each measurement date. For grants of equity instruments with market conditions, the entity shall recognise the goods and services from a counterparty who satisfies other vesting conditions, regardless of whether that market condition is satisfied.

When options are exercised the share-based payment charge recognised in equity is transferred to share capital or share premium on the issue of new shares or if the shares are purchased from the market to retained earnings to the extent it exceeds the cash paid.

Cash-settled share-based payment transactions arise where the Group pays a cash amount calculated by reference to the price of Group shares as consideration. The fair value of cash-settled options are calculated in line with the equity settled guidance but are revalued at each reporting date until the liability is settled. Any changes in fair value are recognised in profit or loss for the period. The liability is extinguished on exercise.

### 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.

Tax returns are prepared to adhere to tax rules and regulations and with all transactions being fully disclosed to the tax authorities. However, the complex nature of tax sometimes means that the legislation is open to interpretation. In such cases, judgement is required to quantify the tax liability to be reflected in the Financial Statements. If there is a reasonable possibility that tax authorities may take a different view from the position taken in the filed returns then this will be reflected in the Financial Statements in the form of a tax provision. In such cases, this provision will represent the full amount of any potential liability until the matter is agreed with the tax authorities.

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 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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.

### Capitalised borrowing costs

Borrowing costs incurred in financing the construction of qualifying assets such as property, plant and equipment are capitalised up to the date at which the relevant asset is substantially complete. Borrowing costs are calculated using the Group's weighted average cost of borrowing during the period of capitalisation. All other borrowing costs are recognised in the income statement in the period in which they are incurred.

### 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 and is charged to Other administrative costs in the income statement.

### 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'.

### Inventories

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

### Financial assets

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

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

### Financial liabilities

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

#### Loans and receivables

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

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

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

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

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

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

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

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

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

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

### Fair value measurement
Financial instruments that are measured subsequent to initial recognition at fair value are grouped into levels 1 to 3 based on the degree to which fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

### 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 re-organisation.

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 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 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. Embedded derivatives are not presented separately from the host in the statement of financial position, the assessment regarding classification as current or non-current is based on the cash flows of the whole hybrid arrangement as the embedded derivatives cannot be settled separately from the host contract.

### Provisions

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

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

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

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

### Contingent liabilities

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

## 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

There are no critical judgements to be disclosed.

### Key sources of estimation uncertainty

#### 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 work force. Details of the principal actuarial assumptions used in calculating the recognised asset/liability for the defined benefit plan are given in Note 37.

#### 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 key estimates that can impact the value in use calculations are changes to the growth rates applied to derive a five-year forecast, or a movement in the discount rate applied to the future cash flows. These are key estimates as they are subjective in nature and significant assumptions are required and any changes to assumptions may lead to impairment charges being recognised. The Group has considered the impact of the assumptions used in the International CGU calculations and has conducted sensitivity analysis on the impairment test of the International CGU carrying value. See Notes 15 and 16 for further details.

### Customer deductions

Management is required to make estimates in determining the amount and timing of recognition of customer deductions due in respect of sales to its customers. In determining the amount of customer deductions due for volume-related allowances in any period, management estimate whether customers will meet the purchase target volumes by the end of the arrangement, based on historical and forecast performance, and recognises this cost as a deduction from revenue over the period of the relevant arrangement. Where there are ongoing negotiations with customers over the level of deduction, the Group makes its best estimate of the outcome based on a range of factors, including the latest negotiation positon, past history and economic factors such as price inflation or deflation.

## 4. SEGMENTAL 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 manages the performance of its businesses through the use of 'Adjusted EBITDA' as defined in Note 41.

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

The following table provides an analysis of the Group's segmental information for the period to 30 December 2017:

| £ million | UK | International | Un-allocated | Total |
|---|---|---|---|---|
| **Revenue** | 1,636.3 | 178.5 | – | 1,814.8 |
| **Adjusted EBITDA** | 145.2 | 7.4 | – | 152.6 |
| Depreciation | (35.6) | (4.0) | – | (39.6) |
| Amortisation | (0.1) | (0.6) | – | (0.7) |
| Exceptional items (Note 7) | (13.5) | (1.9) | – | (15.4) |
| Share scheme charges | (0.8) | – | – | (0.8) |
| Loss on disposal of property, plant and equipment | (0.3) | (0.2) | – | (0.5) |
| Share of results of associates | – | 0.6 | – | 0.6 |
| **Operating profit** | 94.9 | 1.3 | – | 96.2 |
| Finance costs | | | | (35.0) |
| Other gains and (losses) | | | | (22.2) |
| **Profit before tax** | | | | 39.0 |
| Tax | | | | (8.0) |
| **Profit for the period** | | | | 31.0 |
| | | | | |
| **Other segment information:** | | | | |
| Capital additions | 52.4 | 25.3 | – | 77.7 |
| Interests in associates | – | 12.0 | – | 12.0 |
| Total assets | 1,074.1 | 136.4 | 22.6 | 1,233.1 |
| Non-current assets | 896.2 | 111.6 | 0.1 | 1,007.9 |

All of the Group's revenue is derived from the sale of goods in 2017. There were no inter-segment revenues. The un-allocated amount of £0.1 million in non-current assets relates to derivative financial instruments.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 4. SEGMENTAL INFORMATION (CONTINUED)

The following table provides an analysis of the Group's segmental information for the period to 31 December 2016:

| £ million | UK | International | Un-allocated | Total Group | Discontinued operations | Continuing operations |
|---|---|---|---|---|---|---|
| **Revenue** | 1,589.9 | 173.7 | – | 1,763.6 | – | 1,763.6 |
| **Adjusted EBITDA** | 137.7 | 8.7 | – | 146.4 | – | 146.4 |
| Depreciation | (33.1) | (4.1) | – | (37.2) | – | (37.2) |
| Amortisation | (1.6) | (0.6) | – | (2.2) | – | (2.2) |
| Exceptional items (Note 7) | (8.0) | – | – | (8.0) | – | (8.0) |
| Impairment of assets (Note 7) | (8.2) | – | – | (8.2) | – | (8.2) |
| Loss on disposal of property, plant and equipment | – | (0.1) | – | (0.1) | – | (0.1) |
| Profit on disposal of subsidiaries | – | 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:** | | | | | | |
| Capital additions | 59.9 | 8.3 | – | 68.2 | – | 68.2 |
| Interests in associates | – | 13.3 | – | 13.3 | – | 13.3 |
| Total assets | 1,104.3 | 120.2 | 25.6 | 1,250.1 | – | 1,250.1 |
| Non-current assets | 877.2 | 97.4 | 0.3 | 974.9 | – | 974.9 |

All of the Group's revenue is derived from the sale of goods in 2016, except for the £0.1 million investment revenue. There were no inter-segment revenues. Discontinued operations relate to the Group's International segment. The un-allocated amount of £0.3 million in non-current assets relates to derivative financial instruments.

### Major customers

In 2017 the Group's four largest customers accounted for 77.5% (2016: 77.5%) of total revenue from continuing operations. The Group does not enter into long-term contracts with its retail customers.

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

| £ million | **2017** | 2016 |
|---|---|---|
| Customer A | **30.2%** | 30.5% |
| Customer B | **25.9%** | 25.5% |
| Customer C | **11.5%** | 11.5% |
| Customer D | **9.9%** | 10.0% |

## 5. REVENUE

| £ million | **2017** | 2016 |
|---|---|---|
| **Continuing operations** | | |
| Sale of goods | **1,814.8** | 1,763.6 |
| Investment revenue | **–** | 0.1 |
| | **1,814.8** | 1,763.7 |

## 6. PROFIT FOR THE PERIOD

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

| £ million | 2017 | 2016 |
|---|---|---|
| **Continuing operations** | | |
| Depreciation of property, plant and equipment: | | |
| • owned | 38.8 | 36.4 |
| • leased | 0.8 | 0.8 |
| Research and development costs | 9.3 | 8.9 |
| Cost of inventory recognised as an expense | 863.3 | 813.5 |
| Write-down of inventories recognised as an expense | 3.4 | 1.5 |
| Amortisation of intangible assets | 0.7 | 2.2 |
| Impairment of assets (Note 7) | – | 8.2 |
| Exceptional items (Note 7) | 15.4 | 8.0 |
| Loss on disposal of property, plant and equipment | 0.5 | 0.1 |
| Profit on disposal of subsidiary (Note 32) | – | (0.1) |
| Share scheme charges (Note 36) | 0.8 | – |
| Foreign exchange losses (Note 11) | 2.9 | 0.8 |
| Staff costs (Note 8) | 460.4 | 442.5 |

The analysis of the Auditor's remuneration is as follows:

| £ million | 2017 | 2016 |
|---|---|---|
| The audit of the Company's Consolidated Financial Statements | 0.1 | 0.1 |
| The audit of the Company's subsidiaries pursuant to legislation | 0.3 | 0.3 |
| **Total audit fees** | 0.4 | 0.4 |
| Tax services | 0.4 | 0.7 |
| Audit related assurance services | 0.3 | – |
| Other assurance services | 0.5 | – |
| **Total non-audit fees** | 1.2 | 0.7 |

Audit related assurance services represent the fee for the audit of the Consolidated Financial Statements for the 26 week period ended 01 July 2017 required for the public listing. Other assurance services relates to assurance work carried out for the public listing. The £0.8 million for audit related assurance services and other assurance services has been charged to share premium.

All non-audit services provided in the current year were incurred prior to the public listing in November 2017.

## 7. OTHER ITEMS

The Group's financial performance is analysed in two ways; underlying performance (which does not include other items), and other items. Underlying performance is used by management to monitor financial performance as it is considered to aid comparability of the financial performance of the Group from year to year and it excludes items that are considered not to arise directly from trading activities.

Other items include exceptional items, impairment of assets, profit or loss on the disposal of subsidiaries, expenses relating to the refinancing of debts and fair value adjustments relating to items, which are considered significant in nature and are important to users in understanding the business. Further information on the profit on disposal of subsidiaries in the prior year can be found in Note 32. Further information on the refinancing expenses included within other items can be found in Notes 10 and 11.

Included within Other administrative costs are exceptional items and impairment of assets.

### Other administrative costs

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

| £ million | **2017** | 2016 |
|---|---|---|
| **Continuing operations** | | |
| Public listing costs | **10.4** | – |
| Transaction costs | **–** | 5.2 |
| Restructuring costs | **3.1** | 1.3 |
| Legal cases | **0.6** | 1.5 |
| New site costs | **1.3** | – |
| | **15.4** | 8.0 |

#### 2017

The Group has incurred exceptional costs of £15.4 million, of which £10.4 million relates to costs incurred for the public listing in the year and £3.1 million relates to the cost of closing a site in the UK and moving related operations to other sites. The remaining exceptional costs relate to the Group's International segment of which £1.3 million are in respect of initial start-up costs for the opening of a new site in the US with the remaining costs of £0.6 million due to on-going employment litigation in the US.

#### 2016

In 2016 the Group incurred exceptional costs of £8.0 million, of which £5.2 million relate to the fees incurred in that year 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. Costs of £1.3 million were attributable to redundancy costs arising from business losses in one of the Group's UK operations. The remaining £1.5 million related to legal and other costs in respect of an intellectual property dispute, at another UK business, that has now been concluded.

### Impairment of assets

The charge for the impairment of assets has also been included in other administrative costs as follows:

| £ million | **2017** | 2016 |
|---|---|---|
| **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 (2016: £nil).

During the period, the Group has made no impairment (2016: £8.2 million within the UK segment) of property, plant and equipment. Impairment in the prior period followed a review which highlighted a number of assets whose carrying values were greater than their recoverable amounts.

## 8. STAFF COSTS

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

| | 2017 Number | 2016 Number |
|---|---|---|
| **Continuing operations** | | |
| Production | 16,653 | 16,280 |
| Management and administration | 1,992 | 1,740 |
| Sales and distribution | 948 | 925 |
| | 19,593 | 18,945 |

Their aggregate remuneration comprised:

| £ million | 2017 | 2016 |
|---|---|---|
| **Continuing operations** | | |
| Wages and salaries | 409.3 | 394.9 |
| Social security and other costs | 44.0 | 40.2 |
| Other pension costs (Note 37) | 7.1 | 7.4 |
| | 460.4 | 442.5 |

Details of the emoluments paid to Directors are included on page 66 of the Directors remuneration report.

## 9. INVESTMENT REVENUE

| £ million | 2017 | 2016 |
|---|---|---|
| **Continuing operations** | | |
| Interest on bank deposits | – | 0.1 |
| | – | 0.1 |

## 10. FINANCE COSTS

| £ million | 2017 | 2016 |
|---|---|---|
| **Continuing operations** | | |
| Interest on borrowings | 19.9 | 34.0 |
| Interest on obligations under finance leases | 0.2 | 0.2 |
| Amortisation of refinancing costs | 4.9 | 2.8 |
| Call premium on redemption of Senior Secured Notes | 9.9 | 1.5 |
| Unwinding of discount on provisions (Note 29) | 0.3 | 0.3 |
| Total interest expense | 35.2 | 38.8 |
| Less: amounts included in the cost of qualifying assets | (0.2) | – |
| | 35.0 | 38.8 |

The call premium of £9.9 million (2016: £1.5 million) and the £3.3 million (2016: £0.7 million) of accelerated amortisation of refinancing fees (included in the £4.9 million above (2016: £2.8 million)) relating to the redemption of the 2018 and 2020 Senior Secured Notes have been classed as other items in the consolidated income statement, as this related to the previous financing structure.

Borrowing costs included in the cost of qualifying assets during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 2.8% to expenditure on such assets.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 11. OTHER GAINS AND (LOSSES)

| £ million | 2017 | 2016 |
|---|---|---|
| **Continuing operations** | | |
| Foreign exchange losses | (2.9) | (0.8) |
| Change in the fair value of derivative financial instruments | (2.1) | 4.6 |
| Change in fair value of call option (Note 24) | (17.2) | 6.5 |
| | (22.2) | 10.3 |

Other gains and (losses) for the 52 weeks ended 30 December 2017 includes a loss of £17.2 million (2016: gain of £6.5 million) for the reversal of the mark-to-market asset held at 31 December 2016 in respect of the call option for the 2020 Senior Secured Notes, following the redemption of those Notes in March 2017. This loss in 2017 and gain in 2016 have been classified as other items in the consolidated income statement due to the fact that this related to the previous financing structure.

## 12. TAX

| £ million | 2017 | 2016 |
|---|---|---|
| **Continuing operations** | | |
| **Current tax:** | | |
| Current period | 12.2 | 11.9 |
| Prior period adjustment | (0.4) | 0.5 |
| Total current tax charge | 11.8 | 12.4 |
| **Deferred tax:** | | |
| Deferred tax relating to the origination and reversal of temporary differences in the period | (3.0) | 3.0 |
| Deferred tax relating to changes in tax rates | (0.3) | (0.8) |
| Change in US tax rate | 0.7 | – |
| Prior period adjustment | – | (0.2) |
| Benefit arising from previously unrecognised temporary differences of a prior period | (1.6) | (2.8) |
| Unrecognised tax loss originating in the current period | 0.4 | 0.7 |
| Total deferred tax credit (Note 26) | (3.8) | (0.1) |
| | | |
| Tax charge for the period | 8.0 | 12.3 |

Corporation tax is calculated at 19.25% (2016: 20%) of the estimated assessable profit for the period. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The overall tax charge in 2017 was £8.0 million (2016: £12.3 million) which, on a profit of £39.0 million, represented an effective rate of 20.5%. (2016: 19.6%) As the statutory UK corporation tax rate for the period was 19.25%, one would expect a tax charge of £7.5 million.

There were several reasons for the actual charge being £0.5 million higher than the expected charge. The most significant item was the unusually high level of costs incurred in 2017 which were disallowed for tax purposes. These primarily related to the costs of the Initial Public Offering. The tax effect of these permanent differences was an overcharge of £1.8 million. On the other hand, this year we have recognised more US tax losses as deferred tax assets. This amounted to an undercharge of £1.6 million. Other reconciling items are shown in the table below.

Overseas tax rates which are different from the UK rate do not have a material impact on the tax charge and it is expected that this will continue to be the case in future. This is particularly so now that the US federal rate is 21%, which is close to the UK statutory rate of 19%.

Note 7 refers to exceptional costs of £15.4 million. Had these not been incurred, the tax charge would have been £8.4 million, representing an effective rate of 15.4%. As the UK statutory rate was 19.25%, this would indicate a charge of £10.5 million. The primary reason for the undercharge of £2.1 million was the recognition of the US tax losses amounting to £1.6 million.

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

| | 2017 £ million | 2017 % | 2016 £ million | 2016 % |
|---|---|---|---|---|
| Profit before tax: | 39.0 | 100.0 | 63.1 | 100.0 |
| Tax charge at the UK corporation tax rate of 19.25% (2016: 20%) | 7.5 | 19.3 | 12.6 | 20.0 |
| Non-deductible expenses | 1.8 | 4.6 | 2.0 | 3.1 |
| Change in US tax rate | 0.7 | 1.8 | – | – |
| Adjustment in respect of prior periods | (0.4) | (1.0) | 0.3 | 0.5 |
| Tax effect of losses carried forward not recognised | 0.4 | 1.0 | 0.7 | 1.1 |
| Unprovided deferred tax assets now recognised | (1.6) | (4.1) | (2.8) | (4.4) |
| Overseas taxes at different rates | (0.1) | (0.3) | 0.3 | 0.5 |
| Deferred tax change in rate | (0.3) | (0.8) | (0.8) | (1.3) |
| Tax charge and effective tax rate for the period | 8.0 | 20.5 | 12.3 | 19.5 |

In 2017 the tax risk provision was £nil (2016: £0.4 million) because it is considered unlikely that the tax authorities will take a different approach to any material calculations of tax liability. There are currently no open disputes with any tax authorities in any of the countries in which we operate.

It is anticipated that the effective tax rate in the medium term will be lower than the UK corporation tax rate of 19%. This is mainly because of the increasing recognition of tax losses together with a lower level of expected costs that will be disallowed for tax.

In recent years there has been a concerted effort, led by the OECD, to reduce tax avoidance by multinational companies. Such avoidance has been thought possible on an international scale mainly because countries have different tax rates and differing rules as to what is (or is not) subject to tax in their jurisdiction. Multinational companies have, arguably, been able to benefit from such inconsistencies. The OECD compiled a list of fifteen actions to combat such tax avoidance. This is known as the "BEPS" (Base Erosion / Profit Shifting) Project. Anti-avoidance principles are first agreed internationally by the OECD members and then each country incorporates those principles into its domestic legislation.

None of the fifteen BEPS actions is expected to have any material effect on Bakkavor.

Significant changes were made to US tax legislation in December 2017. The US federal tax rate was reduced from 35% to 21% with effect from 1 January 2018. For 2017 this meant that our tax charge was £2.5 million higher than it would have been had the rate not been reduced. This is because our US tax losses, accounted for as assets, would be used at 21% in the future and were therefore recognised at this lower rate. However, in future years the lower US tax rate should reduce our tax charge. There were several other tax measures introduced in that legislation. These included limits to the deductions allowed for interest payments and restrictions on the use of trading losses. None of these other measures is expected to have a material impact on our future tax charge.

In addition to the amount charged to the consolidated income statement, a £2.1 million charge (2016: £1.4 million credit) relating to tax on the defined benefit pension scheme actuarial surplus has been recognised directly in other comprehensive income. Also, a deferred tax credit of £0.2 million (2016: £nil) has been recognised in equity in relation to share schemes under IFRS 2.

The UK corporation tax rate reduced from 20% to 19% from 1 April 2017. In accordance with the Finance Act 2016, the UK corporation tax rate will reduce to 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.

## 13. DISCONTINUED OPERATIONS

### 2017

There were no discontinued operations in the period.

### 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 consolidated income statement within discontinued operations as these businesses were classed as discontinued in 2013.

## 14. EARNINGS PER SHARE

The calculation of earnings per Ordinary share is based on earnings after tax and the weighted average number of Ordinary shares in issue during the period.

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

The calculation of the basic and diluted earnings per share is based on the following data:

### Earnings

| £ million | 52 weeks ended 30 December 2017 | 53 weeks ended 31 December 2016 |
|---|---|---|
| Profit attributable to equity shareholders of the Company | 31.0 | 51.3 |
| Adjustments to exclude profit for the period from discontinued operations | – | (0.5) |
| Earnings from continuing operations for the purpose of earnings per share | 31.0 | 50.8 |

### Number of shares

| '000 | 52 weeks ended 30 December 2017 | 53 weeks ended 31 December 2016 |
|---|---|---|
| Weighted average number of Ordinary shares | 530,738 | 578,645 |
| Effect of potentially dilutive Ordinary shares | 857 | – |
| Weighted average number of Ordinary shares including dilution | 531,595 | 578,645 |

The weighted average number of shares in the current and prior year has been adjusted to account for the 5 for 1 share split that occurred in November 2017.

| | 52 weeks ended 30 December 2017 | 53 weeks ended 31 December 2016 |
|---|---|---|
| **Continuing operations** | | |
| Basic and diluted earnings per share | 5.8p | 8.8p |
| **Continuing and discontinued operations** | | |
| Basic and diluted earnings per share from continuing and discontinued operations | 5.8p | 8.9p |
| **Discontinued operations** | | |
| Basic and diluted earnings per share from discontinued operations | – | 0.1p |

The Group calculates Adjusted basic earnings per Ordinary share and details of this can be found in Note 41, Alternative performance measures.

## 15. GOODWILL

| £ million | |
|---|---|
| **Cost** | |
| At 27 December 2015 | 693.8 |
| Exchange differences | 10.7 |
| At 31 December 2016 | 704.5 |
| Exchange differences | (4.8) |
| **At 30 December 2017** | **699.7** |
| **Accumulated impairment losses** | |
| At 27 December 2015 | (50.9) |
| Exchange differences | (2.1) |
| At 31 December 2016 | (53.0) |
| Exchange differences | 0.5 |
| **At 30 December 2017** | **(52.5)** |
| **Carrying amount** | |
| **At 30 December 2017** | **647.2** |
| At 31 December 2016 | 651.5 |

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. The carrying value of goodwill has been allocated to CGU groupings as follows:

| £ million | **30 December 2017** | 31 December 2016 |
|---|---|---|
| UK | **601.5** | 601.5 |
| International | **45.7** | 50.0 |
| | **647.2** | 651.5 |

The International CGU relates to the US business.

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 (2016: £nil).

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 8.3% to 9.7% (2016: 9.1% to 10.8%).
- 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 budget approved by management for next year as determined by the business units, and extrapolated cash flows for the following four years based on an estimated growth rate, to provide a five-year forecast. Cash flows are then extrapolated using a perpetuity growth rate of 1.7% (2016: 2.0%).

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 |
|---|---|---|
| Headroom of impairment test based on management assumptions | 802.7 | 13.3 |

The pre-tax discount rate ranges from 8.3% to 9.7%. If the pre-tax discount rate in certain parts of the International CGU were to be increased by 0.5% from 9.7% to 10.2% then there would be no impairment charge. An increase to the pre-tax discount rate from 9.7% to 11.0% would result in no headroom. The perpetuity growth rate included in future cash flows is 1.7%. A decrease to the perpetuity growth rate to 0.4% would result in no headroom.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 16. OTHER INTANGIBLE ASSETS

| £ million | Customer relationships | Customer contracts | Total |
|---|---|---|---|
| **Cost** | | | |
| At 27 December 2015 | 87.6 | 1.6 | 89.2 |
| Exchange differences | 1.1 | – | 1.1 |
| At 31 December 2016 | 88.7 | 1.6 | 90.3 |
| Exchange differences | (0.6) | – | (0.6) |
| **At 30 December 2017** | **88.1** | **1.6** | **89.7** |
| **Accumulated amortisation and impairment** | | | |
| At 27 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) |
| Charge for the period | (0.7) | – | (0.7) |
| Exchange differences | 0.3 | – | 0.3 |
| **At 30 December 2017** | **(85.5)** | **(1.6)** | **(87.1)** |
| **Carrying amount** | | | |
| **At 30 December 2017** | **2.6** | **–** | **2.6** |
| At 31 December 2016 | 3.6 | – | 3.6 |

## 17. PROPERTY, PLANT AND EQUIPMENT

| £ million | Land and buildings | Plant and machinery | Fixtures and equipment | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| At 27 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 | (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 |
| Additions | 9.4 | 58.5 | 9.8 | 77.7 |
| Disposals | (6.2) | (20.5) | (3.8) | (30.5) |
| Reclassifications | 3.9 | (7.5) | 3.6 | – |
| Exchange differences | (1.6) | (2.4) | (0.4) | (4.4) |
| **At 30 December 2017** | **200.2** | **437.1** | **75.0** | **712.3** |
| **Accumulated depreciation and impairment** | | | | |
| At 27 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 | 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) |
| Charge for the period | (7.5) | (25.9) | (6.2) | (39.6) |
| Disposals | 4.5 | 19.4 | 3.7 | 27.6 |
| Reclassifications | (0.1) | (0.2) | 0.3 | – |
| Exchange differences | 0.7 | 1.3 | 0.2 | 2.2 |
| **At 30 December 2017** | **(107.0)** | **(219.1)** | **(48.7)** | **(374.8)** |
| **Carrying amount** | | | | |
| **At 30 December 2017** | **93.2** | **218.0** | **26.3** | **337.5** |
| At 31 December 2016 | 90.1 | 195.3 | 19.1 | 304.5 |

The carrying value of the Group's plant and machinery includes an amount of £3.7 million (2016: £4.6 million) in respect of assets held under finance leases.

At 30 December 2017, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £7.6 million (2016: £2.6 million).

The carrying value of the Group's property, plant and equipment includes an amount of £23.1 million (2016: £nil) in respect of assets under the course of construction.

During 2017, the Group has made no impairment of land and buildings (2016: £0.6 million), £nil (2016: £7.4 million) of plant and machinery and £nil (2016: £0.2 million) of fixtures and equipment. These impairments are recognised within 'Other administrative costs' in the consolidated income statement in the 'Other items' column. The impairments were all in the UK sector and arose from site restructurings which resulted in redundant assets. The impairments were determined by comparing the carrying values of the assets with their recoverable amount i.e. the higher of the asset's fair value less costs of disposal and its value in use. The recoverable amount in the case of each asset was its fair value less costs of disposal.

## 18. SUBSIDIARIES

The Group consists of a parent company, Bakkavor Group plc, incorporated in the UK, and a number of subsidiaries and associates held directly and indirectly by Bakkavor Group plc. Note 5 to the Company's separate Financial Statements provides details of the interests in subsidiaries.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 19. INTERESTS IN ASSOCIATES

Details of the associated undertakings of the Group at 30 December 2017 were as follows:

| | Place of registration and operation | Principal activity | Proportion of Ordinary shares 2017 | Proportion of Ordinary shares 2016 | Method of accounting |
|---|---|---|---|---|---|
| **Name of associate** | | | | | |
| La Rose Noire Limited | Hong Kong | Producer of bakery and pastry products | **45%** | 45% | Equity |

| £ million | La Rose Noire Limited |
|---|---|
| **Associates that are not individually material** | |
| At 27 December 2015 | 10.7 |
| Share of profit after tax | 0.7 |
| Exchange differences | 2.2 |
| Dividend payment | (0.3) |
| At 31 December 2016 | 13.3 |
| Share of profit after tax | 0.6 |
| Exchange differences | (1.2) |
| Dividend payment | (0.7) |
| **At 30 December 2017** | **12.0** |

## 20. OTHER INVESTMENTS

| £ million | Non-listed investments held at cost |
|---|---|
| At 31 December 2016 | 0.1 |
| **At 30 December 2017** | **0.1** |

## 21. INVENTORIES

| £ million | 30 December 2017 | 31 December 2016 |
|---|---|---|
| Raw materials and packaging | **47.4** | 50.9 |
| Work-in-progress | **1.7** | 2.0 |
| Finished goods | **5.7** | 6.3 |
| | **54.8** | 59.2 |

## 22. TRADE AND OTHER RECEIVABLES

| £ million | 30 December 2017 | 31 December 2016 |
|---|---|---|
| Amounts receivable from trade customers | 120.8 | 163.3 |
| Allowance for doubtful debts | (1.5) | (1.1) |
| Net amounts receivable from trade customers | 119.3 | 162.2 |
| Other receivables | 19.1 | 17.9 |
| Prepayments | 9.5 | 10.6 |
| | 147.9 | 190.7 |

The Group has a £50 million (2016: £50 million) receivables securitisation facility which it can draw against, up to a maximum of 72% of the net eligible receivables balance for certain UK customers. As at 30 December 2017 the Group had not drawn against this facility (2016: £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 Group also uses non-recourse invoice discounting facilities.

The average credit period taken on sales of goods is 23 days (2016: 32 days). An allowance has been made for estimated irrecoverable amounts from the sale of goods of £1.5 million (2016: £1.1 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 Other receivables amount mainly relates to non-specific amounts, the largest of which is recoverable VAT.

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

| £ million | 30 December 2017 | 31 December 2016 |
|---|---|---|
| Not past due | 102.5 | 137.1 |
| Past due by 1 – 30 days | 14.2 | 23.6 |
| Past due by 31 – 60 days | 1.3 | 0.7 |
| Past due by 61 – 90 days | 0.6 | 0.5 |
| Past due by more than 90 days | 0.7 | 0.3 |
| | 119.3 | 162.2 |

There was no impact from trade receivables renegotiated in 2017 that would otherwise have been past due or impaired (2016: no impact).

The major customers of the Group, representing 77.5% (2016: 77.5%) of the Group's revenue from continuing operations hold favourable credit ratings. On this basis the Group does not see any need to charge interest, seek collateral or credit enhancements to secure any of its trade receivables due to their short-term nature. The Group does not consider that it is exposed to any significant credit risk and therefore the carrying amount of trade receivables represents the expected recoverable amount and there is no further credit risk exposure.

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

| £ million | 30 December 2017 | 31 December 2016 |
|---|---|---|
| Balance at beginning of the period | (1.1) | (0.6) |
| Allowances recognised against receivables | (1.3) | (0.7) |
| Amounts written off as uncollectible during the period | 0.4 | – |
| Amounts recovered during the period | 0.3 | 0.1 |
| Allowance reversed | 0.2 | 0.1 |
| Balance at end of the period | (1.5) | (1.1) |

## 23. CASH AND CASH EQUIVALENTS

| £ million | 30 December 2017 | 31 December 2016 |
|---|---|---|
| Cash and cash equivalents | **20.9** | 22.5 |

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

The interest rates and currency profile of the Group's borrowings at 30 December 2017 were as follows:

| Facility | Currency | Facility amount £ million | Amount drawn down at year end £ million | Interest rate | Non-utilisation fee | Maturity date |
|---|---|---|---|---|---|---|
| Receivables Securitisation Facility | GBP | 50.0 | – | Libor plus margin of 2.85% | 1.4% | February 2018 |
| Term Loan A | GBP | 210.0 | 210.0 | Libor plus a margin of 2.25% | N/A | June 2021 |
| Term Loan B | GBP | 37.5 | 37.5 | Libor plus a margin of 4.25% | N/A | June 2024 |
| Revolving Credit Facility (RCF) | GBP | 200.0 | 40.0[1] | Libor plus a margin of 2.25% | 0.79% | June 2021 |

1 A further £5.4 million has been drawn down in RCF ancillary facilities at the year end.

### Refinancing of debt facilities

On 23 March 2017, the Group completed a refinancing of its existing 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 will mature in June 2021 with the balance maturing in June 2024. The Group has used the funds from the refinancing to repay in full previous bank debt, redeem all outstanding Senior Secured Notes maturing in 2018 and 2020 and pay associated fees. This new funding structure provides the Group with a significant reduction in interest costs whilst extending the maturity of the funding commitments.

### Bakkavor Group bank facilities

The Group's total banking facilities amount to £447.5 million (2016: £205 million) comprising (i) a £247.5 million term loan (2016: £135 million term loan), split £210 million and £37.5 million maturing in June 2021 and June 2024 respectively and (ii) £200 million Revolving Credit Facilities ('RCF') (2016: £70 million RCF), which includes an overdraft and money market facility of £16.5 million (2016: £16.5 million) and further ancillary facilities of £8.7 million (2016: £12.4 million).

Following the public listing, the Group has repaid £37.5 million of the term loan as at 30 December 2017 and therefore the balance owing at that date was £247.5 million. At 30 December 2017 the Group had drawn £40 million under the RCF and overdraft facilities (2016: £nil) and £5.4 million (2016: £4.6 million) of the ancillary facilities.

The interest rate payable on the term loan at 30 December 2017 was Libor plus a margin of 2.25% for the £210 million maturing in June 2021 and Libor plus a margin of 4.25% for the £37.5 million maturing in June 2024 (2016: Libor plus a margin of 2.50%).

The bank facilities are unsecured following the public listing.

### Bakkavor Group receivables securitisation facility

The Group had a £50 million (2016: £50 million) receivables securitisation facility that matured in February 2018 and has not been renewed. 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% (2016: Libor plus a margin of 2.85%). As at 30 December 2017, the Group had no drawings under this facility (2016: £nil). The facility is subject to a non-utilisation fee of 1.4% (2016: 1.4%). The facility was secured by floating charges over the assets of Bakkavor Central Finance Limited until the facility expired in February 2018.

### Bakkavor Group Senior Secured Notes

#### 8.25% Senior Secured Notes

In the prior year, the Group had outstanding £117 million of 8.25% Senior Secured Notes due 2018 following the early repayment of £75 million of the Notes in February 2016. The Notes and associated fees were repaid as part of the refinancing on 23 March 2017.

#### 8.75% Senior Secured Notes

The Group had outstanding £150 million of 8.75% Senior Secured Notes due 2020 in the prior year. The Notes and associated fees were repaid as part of the refinancing on 23 March 2017.

| £ million | 30 December 2017 | 31 December 2016 |
|---|---|---|
| Bank loans | 283.6 | 135.2 |
| 8.25% Senior Secured Notes | – | 119.9 |
| 8.75% Senior Secured Notes | – | 129.6 |
| | 283.6 | 384.7 |
| Borrowings repayable as follows: | | |
| On demand or within one year | 1.5 | 12.9 |
| In the second year | – | 241.1 |
| In the third to fifth years inclusive | 245.6 | 130.7 |
| Over five years | 36.5 | – |
| | 283.6 | 384.7 |
| Analysed as: | | |
| Amount due for settlement within 12 months (shown within current liabilities) | 1.5 | 12.9 |
| Amount due for settlement after 12 months | 282.1 | 371.8 |
| | 283.6 | 384.7 |

As at 30 December 2017 and 31 December 2016 all of the Group's borrowings were denominated in Sterling.

| | 30 December 2017 % | 31 December 2016 % |
|---|---|---|
| The weighted average interest rates paid were as follows: | | |
| Senior Secured Notes and bank loans | 2.94 | 6.64 |

The Group had an interest rate swap of £63.2 million in place which matured in September 2016. This was replaced by a £75 million notional principal interest rate cap that matures in October 2019. 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 fair value of the Group's borrowings is as follows:

| £ million | 30 December 2017 | 31 December 2016 |
|---|---|---|
| Fair value of the Group's borrowings | 287.5 | 413.8 |

The 2018 and 2020 Senior Secured Notes were listed on the Irish Stock Exchange until March 2017 and were actively traded. The best indication, therefore, of the fair value of these debt instruments is considered to be the list price at the relevant period end. The remaining debt is regularly refinanced with interest rates that are in-line with the market rate for similar debt instruments and as a result of this the Directors estimate that the carrying value of this debt approximates its fair value.

The 8.75% Senior Secured Notes due in 2020 contained 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 with a gain of £6.5 million recognised in the period in Other gains and (losses) in the income statement. Following the repayment of the 8.75% Senior Secured Notes on 23 March 2017 a loss of £17.2 million was presented as an 'other item' in Other gains and (losses) in the consolidated income statement in 2017.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 24. BORROWINGS (CONTINUED)

| £ million | 30 December 2017 | 31 December 2016 |
|---|---|---|
| **Analysis of net debt** | | |
| Cash and cash equivalents | 20.9 | 22.5 |
| Borrowings | – | (10.0) |
| Unamortised fees | – | 1.9 |
| Interest accrual | (1.5) | (4.8) |
| Finance leases | (0.8) | (0.7) |
| Debt due within one year | (2.3) | (13.6) |
| Borrowings | (287.5) | (390.9) |
| Unamortised fees | 5.4 | 1.9 |
| Fair value of call option | – | 17.2 |
| Finance leases | (3.1) | (4.0) |
| Debt due after one year | (285.2) | (375.8) |
| Group statutory net debt | (266.6) | (366.9) |

Statutory net debt is the net of cash and cash equivalents, prepaid fees to be amortised over the term of outstanding borrowings, outstanding borrowings, interest accrued on borrowings, finance lease liabilities and any fair value balances related to borrowings.

## 25. DERIVATIVE FINANCIAL INSTRUMENTS

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

| £ million | 30 December 2017 | 31 December 2016 |
|---|---|---|
| Interest rate contracts | 0.1 | 0.3 |
| **Included in non-current assets** | 0.1 | 0.3 |
| Foreign currency contracts | 1.6 | 2.8 |
| **Included in current assets** | 1.6 | 2.8 |
| Foreign currency contracts | (0.6) | – |
| **Included in current liabilities** | (0.6) | – |
| Foreign currency contracts | (0.2) | (0.1) |
| **Included in non-current liabilities** | (0.2) | (0.1) |
| **Total** | 0.9 | 3.0 |

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 | Impairment losses | Retirement benefit obligations | Share scheme | US tax losses and accrued interest | Total |
|---|---|---|---|---|---|---|---|---|---|
| At 27 December 2015 | (16.5) | (1.6) | (0.4) | 0.5 | 0.8 | 0.7 | – | – | (16.5) |
| Credit/(charge) to income – continuing operations | 0.8 | (2.1) | 0.3 | 0.5 | (0.6) | (0.4) | – | 1.6 | 0.1 |
| Credit to equity | – | – | – | – | – | 1.4 | – | – | 1.4 |
| At 31 December 2016 | (15.7) | (3.7) | (0.1) | 1.0 | 0.2 | 1.7 | – | 1.6 | (15.0) |
| (Charge)/credit to income – continuing operations | (0.8) | 3.5 | 0.1 | (0.3) | (0.2) | (0.5) | 0.1 | 1.9 | 3.8 |
| Exchange differences | – | – | – | – | – | – | – | (0.3) | (0.3) |
| (Charge)/credit to equity | – | – | – | – | – | (2.1) | 0.2 | – | (1.9) |
| **At 30 December 2017** | **(16.5)** | **(0.2)** | **–** | **0.7** | **–** | **(0.9)** | **0.3** | **3.2** | **(13.4)** |

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

| £ million | **30 December 2017** | 31 December 2016 |
|---|---|---|
| Deferred tax asset | **3.2** | 1.6 |
| Deferred tax liabilities | **(16.6)** | (16.6) |
| | **(13.4)** | (15.0) |

At the statement of financial position date the Group had unused tax losses of £45.1 million (2016: £52.3 million) available for offset against future taxable 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 | **30 December 2017** | 31 December 2016 | **30 December 2017** | 31 December 2016 |
| Amounts payable under finance leases: | | | | |
| Within one year | **0.9** | 0.9 | **0.8** | 0.7 |
| In the second to fifth years inclusive | **2.5** | 3.1 | **2.3** | 2.8 |
| Over five years | **0.9** | 1.3 | **0.8** | 1.2 |
| | **4.3** | 5.3 | **3.9** | 4.7 |
| Less: future finance charges | **(0.4)** | (0.6) | | |
| Present value of lease obligations | **3.9** | 4.7 | **3.9** | 4.7 |
| Analysed as: | | | | |
| Amount due for settlement within 12 months (shown within current liabilities) | | | **0.8** | 0.7 |
| Amount due for settlement after 12 months | | | **3.1** | 4.0 |
| | | | **3.9** | 4.7 |

The weighted average lease term outstanding is 5.6 years (2016: 6.3 years). For the 52 weeks ended 30 December 2017, the weighted average effective borrowing rate was 4.45% (2016: 4.64%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 28. TRADE AND OTHER PAYABLES

| £ million | 30 December 2017 | 31 December 2016 |
|---|---|---|
| Trade payables | 209.0 | 215.8 |
| Social security and other taxation | 2.2 | 1.9 |
| Other payables | 29.2 | 25.0 |
| Accruals | 153.4 | 189.8 |
| | 393.8 | 432.5 |
| Less: amounts due after one year | | |
| Other payables | (0.4) | (0.4) |
| Trade and other payables due within one year | 393.4 | 432.1 |

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 57 days (2016: 59 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 2015 | 1.0 | 13.1 | 14.1 |
| Utilisation of provision | (0.6) | (0.1) | (0.7) |
| Additional provision in the year | 1.2 | 2.2 | 3.4 |
| Release of provision | – | (2.5) | (2.5) |
| 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 |
| At 31 December 2016 | 1.6 | 13.0 | 14.6 |
| Utilisation of provision | (0.5) | – | (0.5) |
| Additional provision in the year | 0.4 | 4.3 | 4.7 |
| Release of provision | (0.3) | (1.1) | (1.4) |
| Unwinding of discount | – | 0.3 | 0.3 |
| **At 30 December 2017** | **1.2** | **16.5** | **17.7** |
| Included in current liabilities | 0.8 | 2.3 | 3.1 |
| Included in non-current liabilities | 0.4 | 14.2 | 14.6 |

Onerous lease provisions mostly relate to two vacant properties where leases end in 2019 and 2020. The provisions will be utilised over the term of the individual leases to which they relate.

Dilapidation provisions relate to estimated 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, being 2 to 33 years.

## 30. FINANCIAL INSTRUMENTS

### Capital risk management

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

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

### Gearing ratio

The gearing ratio at the period end was as follows:

| £ million | 30 December 2017 | 31 December 2016 |
|---|---|---|
| Debt | 287.5 | 389.4 |
| Cash and cash equivalents | (20.9) | (22.5) |
| Net debt | 266.6 | 366.9 |
| Equity | 510.1 | 378.8 |
| Net debt to net debt plus equity | 34.3% | 49.2% |

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 | 30 December 2017 | 31 December 2016 |
|---|---|---|
| **Financial assets** | | |
| Fair value through profit and loss: | | |
| Derivative financial instruments | 1.7 | 3.1 |
| Call option on Senior Secured Notes due 2020 | – | 17.2 |
| Loans and receivables at amortised cost: | | |
| Trade receivables | 119.3 | 162.2 |
| Other receivables | 19.1 | 17.9 |
| Cash and cash equivalents | 20.9 | 22.5 |
| | 161.0 | 222.9 |

| £ million | 30 December 2017 | 31 December 2016 |
|---|---|---|
| **Financial liabilities** | | |
| Fair value through profit and loss: | | |
| Derivative financial instruments | 0.8 | 0.1 |
| Other payables | 4.3 | 4.3 |
| Other financial liabilities at amortised cost: | | |
| Trade payables | 209.0 | 215.8 |
| Other payables | 24.9 | 20.7 |
| Accruals | 153.4 | 189.8 |
| Borrowings | 283.6 | 401.9 |
| Finance leases | 3.9 | 4.7 |
| | 679.9 | 837.3 |

The fair value of loans and receivables 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'. Quoted prices are not available for the derivative financial instruments and so valuation models are used to estimate fair value. The models calculate the expected cash flows under the terms of each specific contract and then discount these values back to a present value. These models use as their basis independently sourced market parameters including, for example, interest rate yield curves and currency rates. The call option fair value used an estimate of the Company's credit spread at the valuation date with the main valuation input being the GBP Interest rate swap curve.

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.

There have been no changes to fair values as a result of a change in credit risk of the Group or the Group's customers.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 30. FINANCIAL INSTRUMENTS (CONTINUED)

### 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 against 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.

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

Market risk exposures are supplemented by sensitivity analysis. There has been no change 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 overseas operations. All transactional risks, cash flow forecasts and related hedges are reviewed by the Group Hedging Committee and Group Treasury, at least quarterly, to monitor foreign exchange rates and confirm the appropriateness of the Group's hedged cover.

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

During the 52 week period to 30 December 2017, the Euro strengthened against Sterling by 4.0%, with the closing rate at €1.1249 compared to €1.1715 at the prior period end. The average rate for the 52 week period to 30 December 2017 was €1.1408, a 6.8% strengthening of the Euro versus the prior period.

In the same period the US dollar weakened against Sterling by 9.4%, with the closing rate at $1.3522 compared to $1.2357 at the prior period end. The average rate for the period to 30 December 2017 was $1.2896, a 4.7% strengthening of the US dollar versus the prior period.

The net foreign exchange impact on profit from transactions is a loss of £2.9 million (2016: loss of £0.8 million).

#### Foreign currency sensitivity analysis

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

| | Profit or (loss) 10% strengthening | | Profit or (loss) 10% weakening | |
|---|---|---|---|---|
| £ million | **30 December 2017** | 31 December 2016 | **30 December 2017** | 31 December 2016 |
| Euro | **(7.9)** | (6.1) | **9.7** | 7.4 |
| USD | **(2.4)** | (1.5) | **2.9** | 1.8 |
| HKD | **(0.1)** | (0.2) | **0.2** | 0.3 |
| RMB | **(0.4)** | (0.1) | **0.5** | 0.2 |

### 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 30 December 2017:

| | Foreign currency (million) | | Average exchange rate | | Contract value (£ million) | | Fair value (£ million) | |
|---|---|---|---|---|---|---|---|---|
| **Outstanding contracts** | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 |
| **Net Euros:** | | | | | | | | |
| 3 months or less | **33.2** | 35.2 | **1.14** | 1.19 | **29.0** | 28.9 | **0.4** | 1.3 |
| 3 to 6 months | **32.9** | 27.2 | **1.14** | 1.18 | **28.8** | 22.7 | **0.5** | 0.6 |
| 6 to 12 months | **38.4** | 29.4 | **1.14** | 1.16 | **33.6** | 25.1 | **0.7** | 0.2 |
| Over 12 months | **20.9** | 10.8 | **1.10** | 1.15 | **19.0** | 9.4 | **(0.2)** | (0.1) |
| **Net US dollars:** | | | | | | | | |
| 3 months or less | **23.3** | 5.4 | **1.32** | 1.35 | **17.5** | 4.0 | **(0.3)** | 0.3 |
| 3 to 6 months | **9.4** | 11.9 | **1.32** | 1.34 | **7.1** | 9.3 | **(0.2)** | 0.2 |
| 6 to 12 months | **3.6** | 3.9 | **1.34** | 1.25 | **2.7** | 3.0 | **(0.1)** | 0.2 |
| Over 12 months | **0.4** | 0.1 | **1.36** | 1.26 | **0.3** | 0.1 | **–** | – |
| | | | | | **138.0** | 102.5 | **0.8** | 2.7 |

The following table details the US dollar foreign currency contracts outstanding as at 30 December 2017:

| | Foreign currency (million) | | Average exchange rate | | Contract value (US$ million) | | Fair value (US$ million) | | Fair value (£ million) | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Outstanding contracts** | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 |
| **Net Canadian dollars:** | | | | | | | | | | |
| Less than 3 months | **1.4** | 2.1 | **1.29** | 1.33 | **1.1** | 2.8 | **–** | – | **–** | – |
| 3 to 6 months | **–** | 1.1 | **–** | 1.33 | **–** | 1.4 | **–** | – | **–** | – |
| | | | | | **1.1** | 4.2 | **–** | – | **–** | – |

## Interest rate risk management

The Group is exposed to interest rate risk on borrowings. The risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings and by the use of derivative financial instruments such as interest rate swaps and caps to minimise the risk associated with variable interest rates. At the period end 26.1% (2016: 18.7%) of the Group's borrowings were covered by an interest rate cap. During the period, the Group has repaid the 8.25% and 8.75% fixed rate Senior Secured Notes that had balances outstanding in the prior year (see Note 24). Use of interest rate derivatives is governed by Group policies which are approved by the Board.

### Interest rate sensitivity analysis

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

| £ million | **Profit/(loss) 30 December 2017** | Profit/(loss) 31 December 2016 |
|---|---|---|
| Effects of 100 basis points increase in interest rate | **(2.3)** | (0.9) |
| Effects of 100 basis points decrease in interest rate | **2.9** | 1.4 |

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### 30. FINANCIAL INSTRUMENTS (CONTINUED)

#### Interest rate risk management (continued)

Interest rate cap

The Group entered into an interest rate cap agreement. 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 30 December 2017:

| | Average contract fixed interest rate | | Notional principal amount | | Fair value | |
|---|---|---|---|---|---|---|
| | **2017 %** | 2016 % | **2017 £ million** | 2016 £ million | **2017 £ million** | 2016 £ million |
| **Interest rate caps** | | | | | | |
| Over 12 months | **0.75** | 0.75 | **75.0** | 75.0 | **0.1** | 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%.

#### Credit risk management

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

The Group's main credit risk is attributable to its trade receivables. The Group's top four customers, all leading UK retailers, continue to represent more than 77% (2016: 77%) 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. The Group's current bank credit limit consists of a £247.5 million term loan (2016: £135 million) and a £200 million RCF facility (2016: £70 million), through a bank syndicate. Coöperatieve Rabobank U.A. is the syndicate agent of this facility and they manage the syndicate and participation with other counterparties.

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

#### Commodity risk management

The Group acquires substantial quantities of raw materials for its operations. The Group is therefore exposed to commodity price and supply risks for these raw materials. The Group takes action to reduce overall material costs and exposure to price fluctuations by sourcing raw materials from suppliers all over the world, thereby decreasing geographic risk and it also frequently tenders to benchmark market prices. In general requirements are managed using contracts for periods of between three to twelve 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 liabilities. The Group also monitors the drawdown of borrowings against the available banking facilities and reviews the level of reserves. Liquidity risk management ensures sufficient borrowings funding is available for the Group's day to day needs. Group policy is to maintain reasonable headroom of unused committed bank facilities in a range of maturities at least 12 months beyond the period end.

### Maturity profile of financial liabilities

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

| £ million | 30 December 2017 | 31 December 2016 |
|---|---|---|
| Due within one year: | | |
| Trade payables | 209.0 | 215.8 |
| Other payables | 28.8 | 24.6 |
| Accruals | 153.4 | 189.8 |
| Derivative financial instruments | 0.6 | – |
| Borrowings | – | 10.0 |
| Finance leases | 0.8 | 0.7 |
| Interest on borrowings | 8.5 | 31.2 |
| Total due within one year | 401.1 | 472.1 |
| In the second to fifth years inclusive: | | |
| Other payables | 0.4 | 0.4 |
| Derivative financial instruments | 0.2 | 0.1 |
| Borrowings | 250.0 | 391.9 |
| Finance leases | 2.3 | 2.8 |
| Interest on borrowings | 25.9 | 39.6 |
| Total due in the second to fifth years | 278.8 | 434.8 |
| Due after five years: | | |
| Borrowings | 37.5 | – |
| Finance leases | 0.8 | 1.2 |
| Interest on borrowings | 2.8 | – |
| Total due after five years | 41.1 | 1.2 |

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

### Items of income, expense, gains or losses

The following table provides an analysis of the Group's investment revenue, finance costs and changes in fair values by category of financial instrument:

| £ million | 52 weeks ended 30 December 2017 | 53 weeks ended 31 December 2016 |
|---|---|---|
| **Interest revenue** | | |
| On loans and receivables at amortised cost | – | 0.1 |
| **Finance costs** | | |
| On financial liabilities held at fair value through profit and loss | – | (2.1) |
| On financial liabilities held at amortised cost | (35.0) | (36.7) |
| | (35.0) | (38.8) |
| **Changes in fair values recognised in Other gains and (losses)** | | |
| On financial liabilities held at fair value through profit and loss | (19.3) | 11.1 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 31. SHARE CAPITAL AND RESERVES

### Share capital

| £ million | 30 December 2017 | 31 December 2016 |
|---|---|---|
| Issued and fully paid: | | |
| 579,425,585 (2016: 104,774,006) Ordinary shares of £0.02 (2016: £0.01) each | 11.6 | 1.0 |

As a result of merger accounting, it is necessary to present share capital as if merger accounting had been in place at 31 December 2016. The 104,774,006 shares (with a nominal value of £0.01) in Bakkavor Holdings Limited held by Bakk AL Holdings Limited were exchanged for 104,774,006 Ordinary shares (with a nominal value of £0.10) in Bakkavor Group plc. Prior to the public listing these shares were split into 523,870,030 Ordinary shares with a £0.02 nominal value. As part of the public listing transaction 55,555,555 new shares were issued and made available to the public to purchase.

The cash proceeds from the issue of new shares as part of the public listing was £100.0 million as the 55,555,555 shares were subscribed for at £1.80 per share. Fees of £3.4 million were paid from these proceeds giving a net cash flow from the share issue of £96.6 million. These fees have been charged against share premium.

All Ordinary shares of £0.02 (2016: £0.01) each are non-redeemable and carry equal voting rights and rank for dividends and capital distributions, whether on a winding up or otherwise.

No dividends have been declared in the period ended 30 December 2017 (2016: £nil).

### Share premium

The share premium represents amounts received in excess of the nominal value of shares issued, net of the direct costs associated with issuing those shares.

| £ million | 30 December 2017 | 31 December 2016 |
|---|---|---|
| Share premium arising on issue of 55,555,555 new shares | 98.9 | – |
| Share premium arising on share for share exchange | 275.2 | – |
| Expenses incurred on issue of equity shares | (8.0) | – |
| | 366.1 | – |

Share issue costs associated with existing shareholders totalled £4.6 million, in accordance with the Companies Act 2006 this has been reclassified from retained earnings to share premium in addition to the £3.4 million of costs associated with the issue of new shares posted to share premium.

### Merger reserve

The merger reserve was debited by £87.0 million as a result of the acquisition of Bakkavor Holdings Limited. An additional £98.8 million was also debited to the reserve to eliminate the historic capital reserve which related to the previous group structure.

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.

### 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

### 2017

There have been no disposals in the period.

### 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 consolidated income statement.

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 consolidated income statement within discontinued operations.

## 33. NOTES TO THE STATEMENT OF CASH FLOWS

| £ million | 30 December 2017 | 31 December 2016 |
|---|---|---|
| Operating profit | | |
| – continuing operations | 96.2 | 91.5 |
| – discontinued operations | – | 0.5 |
| | 96.2 | 92.0 |
| Adjustments for: | | |
| Share of results of associates | (0.6) | (0.7) |
| Depreciation of property, plant and equipment | 39.6 | 37.2 |
| Amortisation of intangible assets | 0.7 | 2.2 |
| Loss on disposal of property, plant and equipment | 0.5 | 0.1 |
| Profit on disposal of subsidiaries (Note 32) | – | (0.6) |
| Impairment of assets | – | 8.2 |
| Share scheme charges | 0.8 | – |
| Net retirement benefits charge less contributions | (2.9) | (1.5) |
| Operating cash flows before movements in working capital | 134.3 | 136.9 |
| Decrease/(increase) in inventories | 4.4 | (3.4) |
| Decrease/(increase) in receivables | 41.7 | (12.6) |
| (Decrease)/increase in payables | (40.4) | 43.1 |
| Increase in provisions | 2.9 | 0.2 |
| Increase in exceptional creditor | 1.2 | 0.4 |
| Cash generated by operations | 144.1 | 164.6 |
| Income taxes paid | (11.9) | (13.3) |
| Interest paid | (38.8) | (39.2) |
| Net cash from operating activities | 93.4 | 112.1 |

### Analysis of changes in net debt

| £ million | 1 January 2017 | Cash flow | Fair value gains and losses | Exchange movements | Other non-cash movements | 30 December 2017 |
|---|---|---|---|---|---|---|
| Borrowings | (384.7) | 114.4 | (17.2) | – | 3.9 | (283.6) |
| Finance leases | (4.7) | 0.8 | – | – | – | (3.9) |
| Total liabilities from financing activities | (389.4) | 115.2 | (17.2) | – | 3.9 | (287.5) |
| Cash and cash equivalents | 22.5 | (1.1) | – | (0.5) | – | 20.9 |
| Net debt* | (366.9) | 114.1 | (17.2) | (0.5) | 3.9 | (266.6) |

* Includes accrued interest at 30 December 2017 of £1.5 million (2016: £4.8 million) and prepaid bank fees of £5.4 million (2016: £3.8 million).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 34. 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.

The Group has the following amounts of Letters of credit issued:

| £ million | 30 December 2017 | 31 December 2016 |
|---|---|---|
| Letters of Credit | 2.5 | 1.5 |

As at 30 December 2017, the Group had purchase commitments for the next 12 months to guarantee supply and price of raw materials of £96.5 million (2016: £102.4 million).

## 35. OPERATING LEASE ARRANGEMENTS

### The Group as lessee

| £ million | 2017 | 2016 |
|---|---|---|
| **Continuing operations** | | |
| Minimum lease payments under operating leases recognised as an expense in the period | 12.2 | 12.1 |

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 | 30 December 2017 | 31 December 2016 | 30 December 2017 | 31 December 2016 |
| **Operating leases which expire:** | | | | |
| Within one year | 5.4 | 5.3 | 2.8 | 3.2 |
| Within two to five years | 38.7 | 25.9 | 4.6 | 5.5 |
| After five years | 47.3 | 63.0 | 0.1 | 0.1 |
| | 91.4 | 94.2 | 7.5 | 8.8 |

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.

## 36. SHARE-BASED PAYMENTS

The Company has a share option scheme for selected employees of the Group. Options granted under the scheme are exercisable at a discount to the estimated price of the Company's shares on the date of grant. If the options remain unexercised after a period of ten years from the date of grant the options expire. Options may be forfeited if the employee leaves the Group before the options vest.

Details of the share options outstanding during the year are as follows:

| | Number of share options | | Weighted average exercise price | |
|---|---|---|---|---|
| £ million | 30 December 2017 | 31 December 2016 | 30 December 2017 | 31 December 2016 |
| Outstanding at the beginning of the period | – | – | – | – |
| Granted during the period | 9,178,785 | – | £0.68 | – |
| Outstanding at the end of the period | 9,178,785 | – | £0.68 | – |
| Exercisable at the end of the period | – | – | – | – |

The options outstanding at 30 December 2017 had a weighted average exercise price of £0.68, and a weighted average remaining contractual life of 9.4 years. In 2017, options were granted on 3 July 2017 and 20 October 2017. The options granted on 3 July 2017 have two performance conditions for vesting:

1. 50% vest provided that the individual is an employee in April 2020 and a liquidity event i.e. a public listing or company sale has occurred by that date.
2. Provided that the first condition is met, a further 25% vest if Group Adjusted EBITDA for the 2019 financial year is £175 million with up to a further 25% vesting on a sliding scale if Group Adjusted EBITDA is between £175 million and £190 million for that year.

The options granted on 20 October 2017 have no performance conditions other than the employee needs to be employed by the business at the vesting date. The aggregate of the estimated fair values of the options granted in 2017 is £6.6 million.

| Date of grant | Number of options originally granted | Contractual life remaining (years) | Share price at date of grant | Expected volatility | Expected life remaining (years) | Risk-free rate | Expected dividend yield | Fair value per option |
|---|---|---|---|---|---|---|---|---|
| 3 July 2017 | 8,178,785 | 9.5 | £1.44 | 38.2% | 2.3 | 0.87% | 2.75% | £0.65 |
| 20 October 2017 | 600,000 | 9.8 | £1.44 | 37.5% | 2.3 | 0.47% | 2.75% | £1.34 |
| 20 October 2017 | 400,000 | 9.8 | £1.44 | 37.7% | 4.3 | 0.56% | 2.75% | £1.26 |

The Group has used the binomial model to value its share awards.

The expected volatility is a measure of the amount by which a share price is expected to fluctuate during the period. It is typically calculated based on statistical analysis of daily share prices over the length of the award period. Due to the recent listing of Bakkavor Group plc, this information is not available. Instead it has been based on the volatility of an average of companies of a similar size that operate in a similar market.

The Group recognised total expenses of £0.8 million (2016: £nil) related to equity-settled share-based payment transactions in the period.

## 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, 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 | 2017 | 2016 |
|---|---|---|
| UK defined contribution scheme net charge | 6.1 | 6.2 |
| Overseas defined contribution scheme net charge | – | 0.1 |
| UK defined benefit scheme net charge | 1.0 | 1.1 |
| Total charge | 7.1 | 7.4 |

### Defined contribution schemes

The total cost charged to income of £6.1 million (2016: £6.3 million) represents contributions payable to these schemes by the Group at rates advised by the Group to all employees, subject to the minimum requirements set out in legislation. Included in accruals was £1.0 million at the period end for the defined contribution schemes (2016: £1.0 million).

### Defined benefit schemes

An actuarial valuation of Scheme assets and the present value of the defined benefit obligation for funding purposes was carried out as at 31 March 2016. The results were updated for IAS 19 'Employee Benefits' purposes to 30 December 2017 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:

| | 30 December 2017 | 31 December 2016 |
|---|---|---|
| Future pension increases (majority of liabilities) | 3.05% | 3.10% |
| Discount rate applied to Scheme liabilities | 2.40% | 2.55% |
| Inflation assumption (CPI) | 2.20% | 2.25% |

## 37. RETIREMENT BENEFIT SCHEMES (CONTINUED)

The mortality table is based on scheme-specific postcode-fitted SAPS 2 tables with a 96% multiplier for male members and a 95% multiplier for female members. Future improvements are in line with the CMIB core 2015 improvements model with a 1.0% p.a. long-term trend from 2007 onwards, giving life expectancies as follows:

| | **Males' expected future lifetime 2017** | Males' expected future lifetime 2016 | **Females' expected future lifetime 2017** | Females' expected future lifetime 2016 |
|---|---|---|---|---|
| Member aged 45 | **41.7** | 42.1 | **43.9** | 44.3 |
| Member aged 65 | **22.3** | 22.4 | **24.4** | 24.5 |

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 £49.3 million/increase £66.0 million |
| Rate of inflation | Increase/decrease by 0.5% | Increase £21.4 million/decrease £20.1 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 | **2017** | 2016 |
|---|---|---|
| Net interest on net defined benefit asset/liability | **0.2** | 0.1 |
| Administration costs incurred during the period | **0.8** | 1.0 |
| Total charge | **1.0** | 1.1 |

All of the charges for each period presented have been included in total administrative expenses. The actuarial gain of £12.3 million (2016: £7.6 million loss) has been reported in other comprehensive income.

The actual return on Scheme assets was an increase of £23.5 million (2016: £55.4 million increase).

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

| £ million | **30 December 2017** | 31 December 2016 |
|---|---|---|
| Fair value of Scheme assets | **265.8** | 252.6 |
| Present value of defined benefit obligations | **(260.6)** | (262.6) |
| Scheme surplus/(deficit) | **5.2** | (10.0) |
| Related deferred taxation (liability)/asset (Note 26) | **(0.9)** | 1.7 |
| | **4.3** | (8.3) |

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.

The Scheme surplus has been recognised in accordance with IFRIC 14 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction' as the Scheme's terms and conditions allow the Group to have an unconditional right to a refund of contributions when economic benefits are available.

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

| £ million | **30 December 2017** | 31 December 2016 |
|---|---|---|
| Opening balance | **(262.6)** | (215.1) |
| Interest cost on the DBO | **(6.5)** | (7.8) |
| Benefits paid from scheme assets | **13.4** | 15.6 |
| Actuarial gain – experience | **–** | 6.6 |
| Actuarial gain – demographic assumptions | **1.0** | – |
| Actuarial loss – financial assumptions | **(5.9)** | (61.9) |
| Closing balance | **(260.6)** | (262.6) |

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

| £ million | 30 December 2017 | 31 December 2016 |
|---|---|---|
| Opening balance | 252.6 | 211.2 |
| Interest income on scheme assets | 6.3 | 7.7 |
| Return on scheme assets greater than discount rate | 17.2 | 47.7 |
| Contributions from the sponsoring Companies | 3.9 | 2.6 |
| Benefits paid from scheme assets | (13.4) | (15.6) |
| Administrative costs paid | (0.8) | (1.0) |
| Closing balance | 265.8 | 252.6 |

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

| | Fair value of assets | |
|---|---|---|
| £ million | 30 December 2017 | 31 December 2016 |
| Structured UK equity | 6.6 | 6.0 |
| Overseas equity | 38.1 | 32.9 |
| High yield bonds | 18.9 | 47.1 |
| Corporate bonds | 12.8 | 19.4 |
| Index linked government bonds | 134.1 | 118.8 |
| Cash | 29.8 | 13.1 |
| Other | 25.5 | 15.3 |
| | 265.8 | 252.6 |

The fair values of the majority of the equity and bonds have been determined as level 2 instruments under IFRS 7 'Financial Instruments: Disclosures', except for most of the Index linked government bonds which have quoted prices in active markets and are classed as level 1.

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.

The Scheme invests in three 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 at 31 March 2016 was finalised in April 2017.

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 Bakkavor Pension Scheme's current investment strategy adopts a policy of investing broadly 60% in growth-seeking assets and 40% 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 2018 is £3.8 million. Employer contributions, except for deficit reduction contributions, ceased in March 2011 when the Scheme closed to future accrual. Employee contributions also ceased at this date.

Following the closure of the Scheme to future accrual in March 2011, the Group and the Trustee agreed that members who were active members of the Scheme at the date of closure would remain entitled to access early retirement on preferential terms as long as they remained in employment within the Group. The value of members accessing these preferential terms is not included in the defined benefit obligation as this benefit is not funded for in advance. If members choose to access this benefit an employer contribution is made to the Scheme to reflect the increase in expected future pension costs. In 2017 the total contributions made in respect of this benefit were £nil (2016: £nil).

The current deficit reduction contributions were agreed between the Group and the Trustee as part of the 2016 triennial valuation. The deficit contributions will be paid over an eight year recovery period ending on 31 March 2024. The recovery contributions are paid monthly and the agreed rates are £2.0 million in the year ended 31 March 2017, £4.5 million in the year ending 31 March 2018, £3.5 million in the year ending 31 March 2019 and £2.5 million per annum in subsequent years until 31 March 2024. £3.9 million was paid in the period to 30 December 2017.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 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 did not enter into any transactions with related parties who are not members of the Group.

### 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 | 2017 | 2016 |
|---|---|---|
| Short-term employee benefits | 9.3 | 6.1 |
| Post-employment benefits | – | 0.1 |
| Share-based payments[1] | 0.4 | – |
| | 9.7 | 6.2 |

[1]This is the income statement charge for the year which represents the fair value of the share-based payments to the Directors and senior management. Details of the share-based payments are set out in Note 36.

## 39. EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

On 27 March 2018 the Company completed a capital reduction which had been approved prior to the public listing and was set out in the public listing prospectus. This has resulted in the transfer of £366.1 million from the share premium account to retained earnings.

## 40. CONTROLLING PARTY

These Financial Statements are the largest consolidated group financial statements in which the Company has been included.

At 30 December 2017, Carrion Enterprises Limited and Umbriel Ventures Limited together held 290,666,260 Ordinary shares representing 50.2% of the total issued Ordinary share capital of Bakkavor Group plc. Two of the Company's Directors, Agust Gudmundsson and Lydur Gudmundsson, through their beneficial ownership of Carrion Enterprises Limited and Umbriel Ventures Limited are treated as acting in concert and are therefore controlling shareholders of the Company.

## 41. ALTERNATIVE PERFORMANCE MEASURES

The Group uses various non-IFRS financial measures to help evaluate growth trends, assess operational performance and monitor cash performance. The Directors consider that these measures enable investors to understand the ongoing operations of the business and are used by management to monitor financial performance as it is considered to aid comparability of the financial performance of the Group from year to year and it excludes items that are considered not to arise directly from trading activities.

### Like-for-like (LFL) revenue

The Group defines LFL revenue as revenue from continuing operations adjusted for the share of revenue generated by associates, revenue generated from businesses closed or sold in the current and prior year, revenue generated from businesses acquired in the current period, the effect of foreign currency movements and the extra week of trading in 2016. The Directors believe LFL revenue is a key metric of the Group's revenue growth trend as it adjusts for the effects of any acquisitions, disposals, closures, currency fluctuations and compares comparable period lengths thereby allowing for a more meaningful comparison of trends from period to period.

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

| £ million | 52 weeks ended 30 December 2017 | 53 weeks ended 31 December 2016 | Change % |
|---|---|---|---|
| Statutory revenue | 1,814.8 | 1,763.6 | 2.9% |
| Week 53 revenue | – | (28.2) | |
| Group revenue for 52 weeks | 1,814.8 | 1,735.4 | 4.6% |
| Share of revenue from associates | 8.2 | 8.0 | |
| Revenue from closed and sold businesses | (15.0) | (34.9) | |
| Effect of currency movements | (7.7) | – | |
| Like-for-like revenue | 1,800.3 | 1,708.5 | 5.4% |

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

| £ million | 52 weeks ended 30 December 2017 | 53 weeks ended 31 December 2016 | Change % |
|---|---|---|---|
| Statutory revenue | 1,636.3 | 1,589.9 | 2.9% |
| Week 53 revenue | – | (26.2) | |
| Group revenue for 52 weeks | 1,636.3 | 1,563.7 | 4.6% |
| Revenue from closed and sold businesses | (15.0) | (17.9) | |
| Like-for-like revenue | 1,621.3 | 1,545.8 | 4.9% |

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

| £ million | 52 weeks ended 30 December 2017 | 53 weeks ended 31 December 2016 | Change % |
|---|---|---|---|
| Statutory revenue | 178.5 | 173.7 | 2.8% |
| Week 53 revenue | – | (2.0) | |
| Group revenue for 52 weeks | 178.5 | 171.7 | 4.0% |
| Share of revenue from associates | 8.2 | 8.0 | |
| Revenue from closed and sold businesses | – | (17.0) | |
| Effect of currency movements | (7.7) | – | |
| Like-for-like revenue | 179.0 | 162.7 | 10.0% |

## Adjusted EBITDA

The Group manages the performance of its businesses through the use of 'Adjusted EBITDA' as this measure excludes the impact of items that hinder comparison of profitability year on year. EBITDA is generally defined as operating profit/(loss) before depreciation and amortisation. In calculating Adjusted EBITDA, we further exclude share of results of associates, restructuring costs, asset impairments, share scheme charges and those additional charges or credits that are considered significant or one-off in nature.

The following table sets forth a reconciliation from the Group's Operating profit to Adjusted EBITDA.

| £ million | 52 weeks ended 30 December 2017 | 53 weeks ended 31 December 2016 |
|---|---|---|
| Operating profit | 96.2 | 91.5 |
| Depreciation | 39.6 | 37.2 |
| Amortisation | 0.7 | 2.2 |
| Impairment of assets | – | 8.2 |
| EBITDA | 136.5 | 139.1 |
| Exceptional items | 15.4 | 8.0 |
| Loss on disposal of property, plant and equipment | 0.5 | 0.1 |
| Share scheme charges | 0.8 | – |
| Profit on disposal of subsidiaries | – | (0.1) |
| Share of results of associates after tax | (0.6) | (0.7) |
| Adjusted EBITDA | 152.6 | 146.4 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 41. ALTERNATIVE PERFORMANCE MEASURES (CONTINUED)

### Operational net debt

Operational net debt excludes the impact of non-cash items on the Group's statutory net debt and therefore the Directors use this measure as it reflects actual net borrowings at the relevant reporting date and is most comparable with the Group's free cash flow. The following table sets out the reconciliation from the Group's statutory net debt to the Group's operational net debt.

| £ million | **30 December 2017** | 31 December 2016 |
|---|---|---|
| Group statutory net debt | **(266.6)** | (366.9) |
| Unamortised fees | **(5.4)** | (3.8) |
| Interest accrual | **1.5** | 4.8 |
| Fair value of call option | **–** | (17.2) |
| Group operational net debt | **(270.5)** | (383.1) |

### Free cash flow

The Group defines free cash flow as the amount of cash generated by the Group after meeting all of its obligations for interest, tax and pensions and after purchases of property, plant and equipment (excluding development projects), but before payments relating to historical UK liabilities and refinancing fees. The Directors view free cash flow as a key liquidity measure, and the purpose of presenting free cash flow is to indicate the cash available to pay dividends, repay debt or make further investments in the Group. The following table provides a reconciliation from net cash generated from operating activities to free cash flow.

| £ million | **52 weeks ended 30 December 2017** | 53 weeks ended 31 December 2016 |
|---|---|---|
| Net cash generated from operating activities | **93.4** | 112.1 |
| Interest received | **–** | 0.1 |
| Dividends received from associates | **0.7** | 0.3 |
| Purchases of property, plant and equipment | **(79.1)** | (67.3) |
| Purchases of property, plant and equipment relating to development projects | **23.1** | – |
| Proceeds on disposal of property, plant and equipment | **2.5** | 0.1 |
| Cash impact of exceptional items | **14.2** | 7.6 |
| One-off tax payments | **–** | 4.1 |
| Refinancing costs | **16.3** | 1.5 |
| | **71.1** | 58.5 |

### Adjusted earnings per share

The Group calculates Adjusted basic earnings per Ordinary share by dividing Adjusted earnings by the weighted average number of Ordinary shares in issue during the year. Adjusted earnings is calculated as profit attributable to equity holders of the Company adjusted to exclude other items as presented in the consolidated income statement. The Directors use this measure as it tracks the underlying profitability of the Group and enables comparison with the Group's peer companies. The following table reconciles profit attributable to equity shareholders of the Company to Adjusted earnings:

| £ million | **52 weeks ended 30 December 2017** | 53 weeks ended 31 December 2016 |
|---|---|---|
| Profit attributable to equity shareholders of the Company | **31.0** | 51.3 |
| Adjustments to exclude profit for the period from discontinued operations | **–** | (0.5) |
| Earnings from continuing operations for the purpose of earnings per share | **31.0** | 50.8 |
| Exceptional items | **15.4** | 8.0 |
| Impairment of assets | **–** | 8.2 |
| Profit on disposal of subsidiary | **–** | (0.1) |
| Finance costs | **13.2** | 2.2 |
| Change in fair value of call option | **17.2** | (6.5) |
| Tax on the above items | **(6.3)** | (1.4) |
| **Adjusted Earnings used for the adjusted earnings per share calculation** | **70.5** | 61.2 |
| Add back: Tax on underlying activities | **14.3** | 13.7 |
| **Adjusted profit before tax** | **84.8** | 74.9 |

### Number of shares

| '000 | 52 weeks ended 30 December 2017 | 53 weeks ended 31 December 2016 |
|---|---|---|
| Weighted average number of ordinary shares | 530,738 | 578,645 |
| Effect of dilutive ordinary shares | 857 | – |
| Weighted average number of diluted ordinary shares | 531,595 | 578,645 |

| | 52 weeks ended 30 December 2017 | 53 weeks ended 31 December 2016 |
|---|---|---|
| **Continuing operations** | | |
| Adjusted basic and diluted earnings per share | 13.3p | 10.6p |

## Return on invested capital (ROIC)

The Group defines ROIC as Adjusted operating profit after tax divided by the average invested capital for the year. Adjusted operating profit after tax is defined as operating profit from continuing operations excluding the impact of exceptional items, impairment of assets, and profit on disposal of subsidiaries less tax at the Group's effective tax rate. Invested capital is defined as total assets less total liabilities excluding net debt at the period end, pension assets and liabilities (net of deferred tax) and fair values for derivatives not designated in a hedging relationship. The Group utilises ROIC to measure how effectively it uses invested capital. Average invested capital is calculated by adding the invested capital at the beginning of the period to invested capital at the end of the period and dividing the result by two.

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

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

| £ million | 52 weeks ended 30 December 2017 | 53 weeks ended 31 December 2016 |
|---|---|---|
| Operating profit | 96.2 | 91.5 |
| Exceptional items | 15.4 | 8.0 |
| Impairment of assets | – | 8.2 |
| Profit on disposal of subsidiaries | – | (0.1) |
| Adjusted operating profit | 111.6 | 107.6 |
| Taxation at the underlying effective rate | (18.9) | (19.7) |
| Adjusted operating profit after tax | 92.7 | 87.9 |
| Invested capital | | |
| Total assets | 1,233.1 | 1,250.1 |
| Total liabilities | (723.0) | (871.3) |
| Net debt at period end | 266.6 | 366.9 |
| Derivatives not designated as hedges | (0.9) | (3.0) |
| Retirement benefit scheme (surplus)/deficit | (5.2) | 10.0 |
| Deferred tax liability/(asset) on retirement benefit scheme | 0.9 | (1.7) |
| Invested capital | 771.5 | 751.0 |
| Average invested capital for ROIC calculation | 761.2 | 749.2 |
| **ROIC (%)** | 12.2% | 11.7% |

# COMPANY STATEMENT OF FINANCIAL POSITION

30 DECEMBER 2017

| £ million | Notes | 30 December 2017 |
|---|---|---|
| **Non-current assets** | | |
| Investment in subsidiaries | 4 | 309.5 |
| **Current assets** | | |
| Cash and cash equivalents | | 2.2 |
| Amounts due from other Group companies | 6 | 85.4 |
| Deferred tax assets | | 0.3 |
| | | 87.9 |
| **Current liabilities** | | |
| Other payables | 6 | (0.4) |
| | | (0.4) |
| **Net assets** | | 397.0 |
| **Equity** | | |
| Share capital | 7 | 11.6 |
| Share premium | 7 | 366.1 |
| Merger reserve | 7 | 23.8 |
| Retained earnings | | (4.5) |
| **Total equity** | | 397.0 |

In accordance with the exemptions allowed by Section 408 of Companies Act 2006, the Company has not presented its own income statement or statement of comprehensive income. The loss for the three month period was £10.1 million.

The Financial Statements of Bakkavor Group plc, company number 10986940, and the accompanying notes, which form an integral part of the Company Financial Statements, were approved by the Board of Directors on 9 April 2018. They were signed on behalf of the Board of Directors by:

**A Gudmundsson**
Director

**P Gates**
Director

# COMPANY STATEMENT OF CHANGES IN EQUITY

PERIOD FROM 28 SEPTEMBER 2017 TO 30 DECEMBER 2017

| £ million | Share capital | Share premium | Merger reserve | Retained earnings | **Total equity** |
|---|---|---|---|---|---|
| Balance at 28 September 2017 | – | – | – | – | – |
| Issue of share capital (Note 7) | 11.6 | 374.1 | – | – | 385.7 |
| Share issue costs (Note 7) | – | (8.0) | – | 4.6 | (3.4) |
| Recognition of a merger reserve (Note 7) | – | – | 23.8 | – | 23.8 |
| Credit for share-based payments | – | – | – | 0.8 | 0.8 |
| Deferred tax on share schemes | – | – | – | 0.2 | 0.2 |
| Loss for the period | – | – | – | (10.1) | (10.1) |
| **At 30 December 2017** | **11.6** | **366.1** | **23.8** | **(4.5)** | **397.0** |

## 1. GENERAL INFORMATION

The Company was incorporated as a public limited company on 28 September 2017. On 9 October 2017 the Company's name was changed from Diamond Newco plc to Bakkavor Group plc.

## 2. SIGNIFICANT ACCOUNTING POLICIES

The Company Financial Statements have been prepared in accordance with the Financial Reporting Standard 101 'Reduced Disclosure Framework' ("FRS 101") and the Companies Act 2006 and under the historical cost convention.

The Company Financial Statements are prepared on the going concern basis as set out in Note 2 to the Consolidated Financial Statements.

The Company has taken advantage of the following disclosure exemptions under FRS101:

- The requirement of IFRS 7 'Financial Instruments: Disclosures';
- The requirements of paragraphs 91-99 of IFRS 12 'Fair Value Measurement';
- The requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
  - Paragraph 79(a) (iv) of IAS 1; and
  - Paragraph 73(e) of IAS 16 'Property, Plant and Equipment';
- The requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134-136 of IAS 1 'Presentation of Financial Statements';
- The requirement of IAS 7 'Statement of cash flows';
- The requirements of paragraphs 30 and 31 of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors';
- The requirements of paragraph 17 of IAS 24 'Related Party Disclosures';
- The requirements in IAS 24 'Related Party Disclosures' to disclose related party transactions entered into between two or more members of a group; and
- The requirements of paragraphs 134(d) – 134(f) and 135(c) – 135(e) of IAS 36 'Impairment of Assets'.

The preparation of Financial Statements in conformity with FRS 101 did not require the use of any critical accounting estimates or any significant areas of judgement.

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.

## 3. EMPLOYEES', DIRECTORS' AND AUDITOR'S REMUNERATION

Fees payable to the Company's Auditor in respect of the audit of the Company's Financial Statements for the period ended 30 December 2017 have been borne by fellow Group Company Bakkavor Foods Limited. The Company has no employees and payments to Directors for the period ended 30 December 2017 have been borne by fellow Group company Bakkavor Foods Limited.

## 4. INVESTMENTS IN SUBSIDIARIES

| £ million | Investment in Group companies |
|---|---|
| **Balance at 30 December 2017** | **309.5** |

The Company acquired by way of share for share exchange the entire issued share capital of Bakkavor Holdings Limited on 10 November 2017.

# NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

## 5. SUBSIDIARIES

As at 30 December 2017, Bakkavor Group plc 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 Holdings Limited[1] | UK | Holding company | 100% |
| **Indirectly held investments:** | | | |
| Bakkavor Finance (1) Limited[1] | UK | Holding company | 100% |
| Bakkavor Finance ehf[3] | Iceland | Dormant holding company | 100% |
| Bakkavor Finance (2) Plc[1] | UK | Holding company | 100% |
| Bakkavor Finance (3) Limited[1] | UK | Holding company | 100% |
| Bakkavor London Limited[1] | UK | Holding company | 100% |
| Bakkavor Estates Limited[2] | UK | Property management | 100% |
| Bakkavor Acquisitions (2008) Limited[1] | UK | Holding company | 100% |
| Bakkavor USA Inc[4] | USA | Holding company | 100% |
| Bakkavor USA Limited[1] | UK | Holding company | 100% |
| Bakkavor Foods USA Inc[4] | USA | Manufacture of custom and private label savoury and bakery products | 100% |
| Bakkavor Foods Holdings LLC[4] | USA | Holding company | 100% |
| Bakkavor Invest Limited[1] | UK | Holding company | 100% |
| Bakkavor (Acquisitions) Limited[1] | UK | Holding company | 100% |
| Bakkavor Finance Limited[2] | UK | Customer invoicing and financing of receivables | 100% |
| Bakkavor Asia Limited[1] | UK | Holding company | 100% |
| Bakkavor China Limited[1] | UK | Holding company | 100% |
| Creative Food Group Limited[5] | Hong Kong | Production and manufacture of salad products | 100% |
| Bakkavor Hong Kong Limited[5] | Hong Kong | Preparation and marketing of fresh prepared foods | 100% |
| Creative Agriculture Holdings Limited[5] | Hong Kong | Production and manufacture of salad products | 100% |
| Bakkavor China Holdings Limited[5] | Hong Kong | Holding company | 100% |
| Wuhan Bakkavor Food Company Limited[6] | China | Production and manufacture of salad products | 100% |
| Jiangsu Creative Agriculture Produce Development Company Limited[7] | China | Production and manufacture of salad products | 100% |
| Shaanxi Bakkavor Food Company Limited[8] | China | Production and manufacture of salad products | 100% |
| Shanghai Creative Food Company Limited[9] | China | Production and manufacture of salad products | 100% |
| Beijing Bakkavor Food Company Limited[10] | China | Production and manufacture of salad products | 100% |
| Guangzhou Creative Food Company Limited[11] | China | Production and manufacture of salad products | 100% |
| Bakkavor (Shanghai) Management Company Limited[12] | China | Holding company | 100% |
| Nantong Creative Agriculture Produce Development Company Limited[13] | China | Production and manufacture of salad products | 100% |
| Fujian Bakkavor Food Company Limited[14] | China | Production and manufacture of salad products | 100% |
| Bakkavor (Taicang) Baking Company Limited[15] | China | Production and manufacture of bakery products | 100% |
| Chengdu Bakkavor Foods Company Limited[16] | China | Production and manufacture of salad products | 100% |
| Bakkavor Limited[1] | United Kingdom | Holding company | 100% |
| Bakkavor (Jersey) Limited[17] | Jersey | Dormant holding company | 100% |
| Bakkavor (Jersey Two) Limited[17] | Jersey | Dormant holding company | 100% |
| Bakkavor Properties Limited[1] | United Kingdom | Non-trading | 100% |
| Geest Corporation Inc[18] | USA | Dormant holding company | 100% |
| Bakkavor Overseas Holdings Limited[1] | United Kingdom | Non-trading | 100% |
| BV Foodservice Limited[1] | United Kingdom | Non-trading | 100% |
| Bakkavor Foods Limited[1] | United Kingdom | Preparation and marketing of fresh prepared foods | 100% |

| Name | Place of registration and operation | Principal activity | % of voting shares |
|---|---|---|---|
| Bakkavor Pension Trustees Limited[1] | United Kingdom | Pension trustee holding company | 100% |
| Bakkavor European Marketing BV[19] | Netherlands | Holding company | 100% |
| NV Bakkavor Belgium BV[20] | Belgium | Non-trading | 100% |
| Bakkavor Fresh Cook Limited[1] | UK | Preparation and marketing of fresh prepared foods | 100% |
| Anglia Crown Limited[1] | UK | Preparation and marketing of fresh prepared foods | 100% |
| English Village Salads Limited[1] | UK | Non-trading | 100% |
| Bakkavor Australia Pty Limited[21] | Australia | Holding company | 100% |
| BV Restaurant Group Limited[1] | UK | Production and distribution of fresh prepared foods | 100% |
| Bakkavor Iberica S.L.U.[22] | Spain | Distribution | 100% |
| Bakkavor Central Finance Limited[2] | UK | Customer invoicing and financing of receivables | 100% |
| Notsallow 256 Limited[1] | UK | Dormant non-trading company | 100% |
| Kent Salads Limited[1] | UK | Dormant non-trading company | 100% |
| Laurens Patisseries Limited[1] | UK | Dormant non-trading company | 100% |
| Hitchen Foods Limited[1] | UK | Dormant non-trading company | 100% |
| Bakkavor Brothers Limited[1] | UK | Dormant non-trading company | 100% |
| Cucina Sano Limited[1] | UK | Dormant non-trading company | 100% |
| Butterdean Products Limited[1] | UK | Dormant non-trading company | 100% |
| Exotic Farm Prepared Limited[1] | UK | Dormant non-trading company | 100% |
| Exotic Farm Produce Limited[1] | UK | Dormant non-trading company | 100% |
| La Rose Noire Limited[23] | Hong Kong | Operation of bakery and food and beverage outlets | 45% |

1 The registered address of all these Companies is Fitzroy Place, 5th Floor, 8 Mortimer Street, London, England, W1T 3JJ.

2 The registered address of these Companies is West Marsh Road, Spalding, Lincolnshire, England, PE11 2BB.

3 The registered address of this company is Thorvaldsensstræti 6, 6th floor, 101 Reykjavík, Iceland.

4 The registered address of these Companies is 18201 Central Avenue, Carson, California, 90746.

5 The registered address of these Companies is Units 1902-1912, 19/F., Eight Commercial Tower, No 8 Sun Yip Street, Chai Wan, Hong Kong.

6 The registered address of this company is Mujiajing ZhangDuHu Farm, Xinzhou District, Wuhan, China.

7 The registered address of this company is Agricultural Development Area, Changle Town, Haimen City, Jiangsu Province, China.

8 The registered address of this company is Qinghua Keji Garden, Middle of Shiji Road, Xianyang City, Shanxi Province, China.

9 The registered address of this company is No. 279 Jiaqian Road, Nanxiang Developing Area, Jiading District, Shanghai, China.

10 The registered address of this company is South Xitai Road, Da Sun Gezhuang Town, Shunyi District, Beijing, China.

11 The registered address of this company is No. 55 Banyutang Road, High Tech Development Area, Guangzhou, China.

12 The registered address of this company is Room 01, 3A Floor, Number 16 Lane 1977, Jinshajiang Road, Putuo District, Shanghai, China.

13 The registered address of this company is No. 18 Group, Lingshu Village, Dong Zaogang Town, Haimen City, Jiangsu Province, China.

14 The registered address of this company is Jiulong Industry Park of Hua An Economic Development Zone, China.

15 The registered address of this company is Taican City, No 29 Qingdao East Road, China.

16 The registered address of these Companies is 47 Esplanade, St Helier, Jersey, JE1 0BD.

17 The registered address of this company is Rong Tai Road, Cross-Striats Science & Technology Industry Development Park, Wenjiang District, Chengdu, China.

18 The registered address of this company is 251 Little Falls Drive, Wilmington, Delware, 19808, USA.

19 The registered address of this company is Prins Bernhardplein 200, 1097 JB Amsterdam, The Netherlands.

20 The registered address of this company is Lammerdries-Zuid 16F, 2250 Olen, Belgium.

21 The registered address of this company is Henry Davis York, 44 Martin Place, Sydney, NSW 2000, Australia.

22 The registered address of this company is Calle Cartagena 57, 1º D Torre Pacheco, Murcia CP 30700, Spain.

23 The registered address of this company is 2/F Corporation Squarem 8 Lam Lok Street, Kowloon Bay, Kowloon, Hong Kong. La Rose Noire is an associate company of the Bakkavor Group.

## 6. 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 an intercompany loan receivable that has a fixed rate of interest. There are no further interest-bearing balances and therefore the Company is not exposed to any interest rate risk.

# NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

## 6. FINANCIAL INSTRUMENTS (CONTINUED)

### Categories of financial instruments

| £ million | 30 December 2017 |
|---|---|
| **Financial assets** | |
| Loans and receivables at amortised cost: | |
| Amounts due from other Group companies | 85.4 |

| £ million | 30 December 2017 |
|---|---|
| **Financial liabilities** | |
| Other financial liabilities at amortised cost: | |
| Other payables | 0.4 |

## 7. SHARE CAPITAL AND RESERVES

### Share capital

| | 31 December 2017 | |
|---|---|---|
| | Number | £ million |
| Issued and fully paid: | | |
| Ordinary shares of £0.02 each | 579,425,585 | 11.6 |

The 104,774,006 shares, held by Bakk AL Holdings Limited, in Bakkavor Holdings Limited were exchanged for 523,870,030 Ordinary shares in Bakkavor Group plc. As part of the public listing, on 16 November 2017, the Company issued 55,555,555 new shares to the public which were subscribed for at £1.80 per share.

No dividends have been declared in the period ended 30 December 2017. See Note 8 for details of a capital reduction which will enable the Company to pay dividends in the future.

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

### Share premium

The share premium represents amounts received in excess of the nominal value of shares issued, net of the direct costs associated with issuing those shares.

| £ million | 30 December 2017 |
|---|---|
| Share premium arising on issue of 55,555,555 new shares | 98.9 |
| Share premium arising on share for share exchange | 275.2 |
| Expenses incurred on issue of equity shares | (8.0) |
| | 366.1 |

Share issue costs associated with existing shareholders totalled £4.6 million, in accordance with the Companies Act 2006 this has been reclassified from retained earnings to share premium in addition to £3.4 million of costs associated with the issue of new shares posted to share premium.

### Merger reserve

The merger reserve was created as a result of the acquisition of Bakkavor Holdings Limited and represents the difference between the carrying values of the net assets of Bakkavor Holdings Limited and the value of the share capital and share premium arising on the share for share exchange that resulted in Bakkavor Group plc acquiring Bakkavor Holdings Limited.

## 8. EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

On 27 March 2018 the Company completed a capital reduction which had been approved prior to the public listing and was set out in the public listing prospectus. This has resulted in the transfer of £366.1 million from the share premium account to retained earnings.

## 9. CONTROLLING PARTY

At 30 December 2017, Carrion Enterprises Limited and Umbriel Ventures Limited together held 290,666,260 Ordinary shares representing 50.2% of the total issued Ordinary share capital of Bakkavor Group plc. Two of the Company's Directors, Agust Gudmundsson and Lydur Gudmundsson, through their beneficial ownership of Carrion Enterprises Limited and Umbriel Ventures Limited are treated as acting in concert and are therefore controlling shareholders of the Company. These Financial Statements are the largest consolidated group financial statements in which the Company has been included.

# ADVISERS AND REGISTERED OFFICE

### SECRETARY
S Witham (appointed 28 September 2017)

### REGISTERED OFFICE
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