BAKKAVOR

ALL ABOUT FRESH

ANNUAL REPORT AND ACCOUNTS 2018

CONTENTS

2018 HIGHLIGHTS

GROUP REVENUE
£1,855.2m ↑ 2.2%

ADJUSTED EBITDA[1]
£153.5m ↑ 0.6%

OPERATING PROFIT
£85.6m ↓ 11.0%

NET CASH FROM OPERATIONS
£99.1m ↑ 6.1%

BASIC EPS
11.6p ↑ 5.8p

FIND OUT MORE ABOUT OUR BUSINESS AT BAKKAVOR.COM

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.

1. 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 40 of the Notes to the Consolidated Financial Statements.

AT BAKKAVOR, WE'RE ALL ABOUT FRESH

FRESH IDEAS
With fresh ways of thinking.

FRESH FACES
Creating fresh prepared food.

FRESH INVESTMENTS
To support fresh partnerships.

FRESH COMMITMENT
To fresh new tastes.

FRESH ENGAGEMENT
Through fresh approaches.

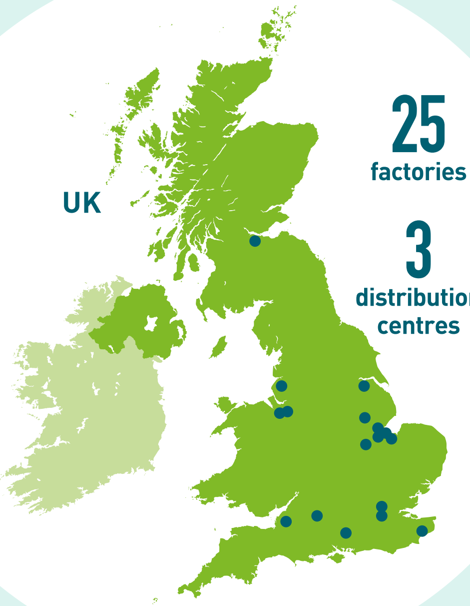
FRESH DEDICATION
To global fresh ambitions.

CREATING QUALITY FRESH PREPARED FOOD

Bakkavor is the leading provider of fresh prepared food ("FPF") in the UK, with a growing international presence in the US and China. Over 19,000 employees operate from 43 locations to develop and produce innovative FPF for a wide variety of occasions and budgets. These locations include: 25 factory sites, three distribution centres and a head office in the UK; five factories in the US; and nine factories in China.

Over
19,000
employees worldwide

UK



25 factories

3 distribution centres

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

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

INTERNATIONAL

US

5 factories

Portfolio of around **500** products in the US

Created around **140** new products in the US

CHINA

9 factories

Portfolio of around **500** products in China

Created over **220** new products in China

PARTNERING WITH OUR CUSTOMERS

Our customers include all the well-known UK grocery retailers as well as some of the world's best-known international food brands.

Our deep understanding of consumer food choices enables us to create innovative products that set us apart from our competitors.

These products cover a range of categories including meals, desserts, pizza & bread and salads.

UK

INTERNATIONAL

ONE OF THE LARGEST INTERNATIONAL FOOD MANUFACTURERS

BUSINESS ACTIVITIES

We are the leading provider of FPF in the UK, with a growing international presence in the US and China. Our 19,000 employees operate from 43 locations to develop and produce innovative FPF for a wide variety of occasions and budgets. These locations include: 25 factory sites, three distribution centres and a head office in the UK; five factories in the US; and nine factories in China.

In the UK and the US, we work with leading grocery retailers to support them in differentiating their product offering by focusing on their own-label brands. In China, we supply foodservice operators.

In partnership with our customers, we have led the way in developing the FPF market in the UK – one of the largest and most dynamic of its kind in the world.

We have used this expertise to grow and develop our presence in the US and China, with both markets showing strong growth in the high-quality, fresh, convenience food sector.

Our proven business model – combined with our extensive insight into consumer trends and an ability to turn this insight into creative commercial products – gives the Group a clear competitive advantage in the FPF market.

We report our business performance under two segments: UK and International.

UK

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

Our customers include all the well-known UK grocery retailers, who sell our products under their own respective brands. In 2018, we developed over 500 new products in the UK in partnership with them.

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

Strategic positioning

- Operating in attractive markets
- Leading position across all four product categories
- Strong insight, innovation and new product development focus
- Long-standing partnerships with customers

INTERNATIONAL

Our International business comprises the FPF market in the US and the foodservice market in China.

We employ over 600 people in the US and over 2,000 in China, having operated in both countries for more than 10 years.

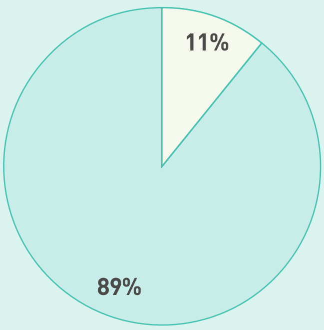
We believe we are well placed to influence and develop these markets by leveraging our UK expertise. Both markets have demonstrated a growing demand for fresh, high-quality, healthy and convenient food options.

In 2018, our International business expanded its presence with the addition of five new factories – three in China and two in the US.

Strategic positioning

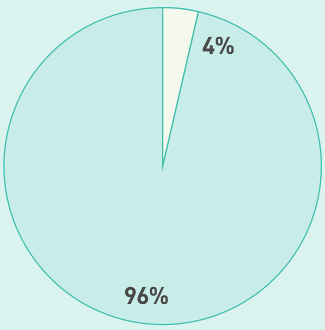
- Strong understanding of markets and long-established presence
- Ability to capitalise on UK expertise and insight for competitive advantage
- Significant opportunities for growth
- Increased purchasing power for raw materials

GROUP REVENUE



UK: £1,653.6m
International: £201.6m

ADJUSTED EBITDA[1]



UK: £147.7m
International: £5.8m

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LEADING THE WAY

OUR VISION

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 and 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.

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.

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.

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.

INNOVATION

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

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 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 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.

ROBUST PERFORMANCE IN A DIFFICULT MARKET ENVIRONMENT

"Our focus remains on the long-term, sustainable growth of our business and current conditions will not deflect us from that aim."

OVERVIEW

Overall, we made good progress with our strategic plans and delivered a robust performance in a difficult market environment. Group revenue increased by 2.2% to £1,855.2 million, adjusted EBITDA[1] increased by 0.6% to £153.5 million, and operating profit decreased by 11.0% to £85.6 million. Our focus on strong cash generation continued, with net cash from operations up 6.1% to £99.1 million in the year.

Conditions in the UK, our largest market, have not been easy in 2018, and we have had to work hard to manage the impact of inflation, whilst also dealing with the effects of economic and political uncertainty. As in previous years, the long-term basis and strength of our key trading relationships has helped both to mitigate the impact of these factors and to create opportunity for growth and development.

Market conditions have, however, provided openings in the year to build our position in key areas. A good example is in the desserts category, where the creation of additional capacity at Newark will enable us to serve our customers in new areas. We were also delighted to complete the acquisition of Haydens Bakery; a fine business which will add to the quality and breadth of our current desserts offering.

Our International business, while much smaller than the UK business, is growing in line with our ambitious plans and passed important milestones this year. In China, we continued to expand alongside existing and new customers, and our headcount in China passed 2,000 during the year. We also opened a major new state-of-the-art facility in Shanghai, focused on salad products, as well as entering the bakery market for the first time.

In the US, we strengthened relationships with existing key customers, as well as starting to work with new ones. Most importantly, our new Texas facility, dedicated to supplying a range of fresh prepared foods for a single retailer, began production in the autumn and is now building output, working hand-in-hand with this important new customer.

OUTLOOK

I have referred to market challenges in the UK and looking ahead in the short term we expect these to continue. Our focus remains on the long-term, sustainable growth of our business and current conditions will not deflect us from that aim. We will be alert for growth opportunities and we will continue to move ahead at pace in our two very attractive overseas markets.

PEOPLE

Bakkavor employs more than 19,000 people across our Group, including 17,000 in the UK. I'm proud of the way that all our people work together to make great-tasting food consistently and safely. Many of them have done so despite the uncertainty created for them personally by the Brexit process. We are very pleased to continue to support them as this situation develops. We do well to remember that it is their work that creates our results and our value and I thank them for it.

OUR WIDER SOCIAL IMPACT

We recognise the responsibility we have as a food manufacturer to operate our business in a sustainable way. Towards the end of the year, we undertook a review of our approach to corporate responsibility, including development of a Group-wide strategy and set of sustainability priorities. We will provide further information on our progress in 2019 and recognise there is much more we can be doing to commit to this agenda in the years ahead.

To support both our people and our communities, we put in place two new charity partnerships to begin in January 2019, with FareShare, a UK charity aimed at relieving poverty and reducing food waste, and Action Against Hunger, a global charity committed to ending world hunger.

In addition, we are also well aware that we have a clear part to play within the industry to work alongside retailers to reduce food waste. To that end, in the UK we added our support to the Food Waste Reduction Roadmap, a WRAP and IGD initiative to support waste reduction in the UK.

BOARD

Our relatively new Board has come together very well and is providing a good level of both challenge and support to the Executive. At the start of April, Jane Lodge joined as an Independent Non-executive Director, and as Chair of our Audit and Risk Committee. In July, Patrick Cook also joined our Board as a Non-executive Director, replacing Bob Berlin. I am delighted to welcome them both, and also to thank Bob for his input and support, particularly during our preparations for the IPO in 2017.

DIVIDEND

Following payment of our interim dividend of 2 pence per Ordinary share in October 2018, the Board is proposing a final dividend of 4 pence per Ordinary share, payable on 29 May 2019 to shareholders on the register at 3 May 2019. This takes the total dividend for the year to 6 pence per ordinary share.

Simon Burke

SIMON BURKE
Chairman

5 April 2019

FRESH IDEAS
WITH FRESH WAYS OF THINKING

Georgia Papworth, Insights team, Bakkavor UK
I joined Bakkavor's Insights team in 2017. I love what we do; working with our customer marketing colleagues and sharing our research and thoughts on emerging trends and exciting new food developments.

Our passion for innovative food and knowledge of what sells keeps us ahead of the market and allows us to respond really quickly to changing consumer lifestyles.

OUR VEGAN BUTTERNUT SQUASH NUT ROAST WAS A BIG HIT OVER CHRISTMAS AND IS JUST ONE OF THE TASTY PRODUCTS WE MAKE TO MEET THE GROWING TREND FOR VEGAN FOODS.

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 both commercially successful 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 provide both 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 our colleagues
- Investing in our communities, working collaboratively to promote the sustainable growth of the food industry

READ MORE ABOUT OUR STAKEHOLDER ENGAGEMENT ON PAGE 10.

HOW WE CREATE VALUE

1. INSIGHT AND INNOVATION

We use insights gained through our 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 taste great, are commercially viable and reinforce our market-leading positions.

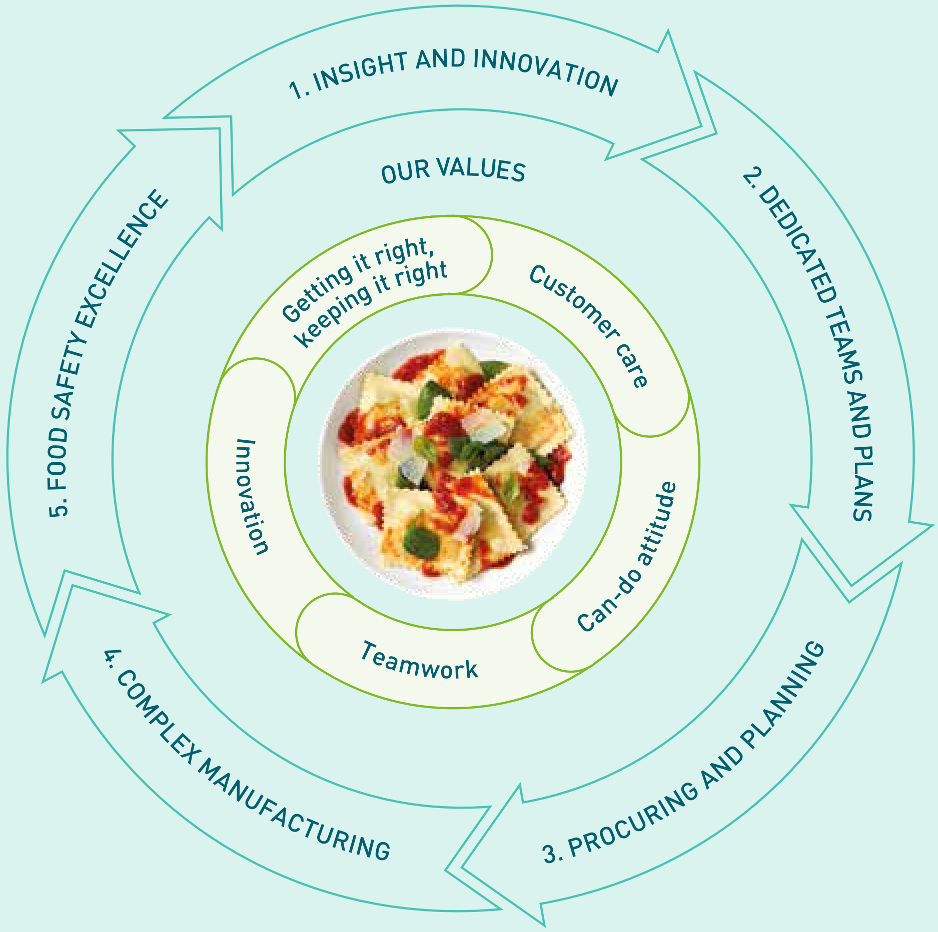
2. DEDICATED TEAMS AND PLANS

We recognise that our relationships with customers and the service we provide are 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, that work with our strategic customers and ensure we meet their exacting standards.

ALL ABOUT FRESH



3. 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 around 50 countries with no single supplier accounting for more than 5% of UK 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, with a mix of both permanent employees and agency workers to meet seasonal demand.

4. COMPLEX MANUFACTURING

Our UK factories are operational 24/7, 364 days a year, providing approximately 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 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.

5. 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.

In the UK, we employ more than 500 food safety professionals and conduct over 1,500 in-house microbiology and chemistry tests every day in our own laboratories.

CREATING VALUE FOR OUR STAKEHOLDERS

We believe it is important to listen and engage with our stakeholders as we will only be able to build a sustainable business with their input, cooperation and trust.

STAKEHOLDER	HOW WE ENGAGE	WHAT WE DID IN 2018
CUSTOMERS	• Dedicated customer champions at senior business director level • Supplier business reviews • Insights team • New Product Development team • Technical team • Customer site audits	We evolved our UK operational structure to incorporate a more customer focused leadership team. We undertook an extensive supplier business review with one of our major customers to secure further business. After many years of planning, we opened a new factory in Texas dedicated to an important new customer. Alongside many of our customers, we committed to adopt the United Nations Sustainable Development Goal 12.3 "to halve food waste across the supply chain by 50% by 2030."
SUPPLIERS	• Procurement Leadership team • Dedicated Group buyers • Bakkavor Supplier Conference • Technical audits • Regular supplier visits • New product development • Cost/quality improvement initiatives • Inbound logistics • Technological innovation • Industry conferences • Social events	We held our first Bakkavor UK Supplier Conference to set out our future approach to responsible sourcing. Over 420 supplier representatives attended the event, with presentations from our Chief Executive Officer, UK Chief Operating Officer and the Responsible Sourcing Steering Group. In China, we continued to work with growers to improve supply chain integrity and overall product quality. During the year, we invested in state-of-the-art hydroponics technology to further improve quality of supply and seasonal availability of ingredients.
INVESTORS	• Annual General Meeting • Annual Report & Accounts • Financial results releases presentation and audio cast • Investor roadshows • Investor conferences • Factory site visits • Hosted events • One-to-one calls	We held five Investor roadshow events across London, Edinburgh, Boston and New York and attended a number of investor conferences throughout the year. We hosted seven investor site visits at UK sites, plus an investor and analyst 'Christmas-party-food-range' launch event. We held over 100 one-to-one investor and analyst calls.
COLLEAGUES	• Group awards • Site awards such as Long Service and Living our Values • Community activities • Employee Engagement Survey • Site Employee Forum ("SEF") Representatives • CEO messages to employees • Intranet • Group newsletter • Subsidised staff shops • Internal conferences • Annual appraisals	We rolled out our Employee Engagement Survey to our International colleagues. We continued to support and advise our employees during the ongoing uncertainty surrounding Brexit. We further developed our apprenticeship and graduate recruitment programmes both in the UK and internationally. We continued to improve our staff facilities across our sites, particularly in China where we made a number of well-received improvements.
COMMUNITIES	• School partnerships • Charity fundraising • Employee volunteering • Local awards sponsorship • Hosting community events • Social media	In July, we hosted our annual 'Fun Weekend' in Spalding, Lincolnshire, for employees and the local community, which raised over £25,000 for charity. We announced two new three-year charity partnerships with FareShare and Action Against Hunger.

FRESH FACES

CREATING FRESH PREPARED FOOD

Finlay Galbraith, Apprentice Development Chef, Bakkavor UK
I'm currently on my first year of the Apprenticeship Programme, learning to become one of Bakkavor's development chefs. I've always loved food and trying out different dishes, so it's great to be able to work with like-minded people who are passionate about culinary excellence and creating great-tasting new recipes using fresh ingredients. It's even more rewarding to see our products on supermarket shelves.

OUR WOOD-FIRED FIG, PROSCIUTTO, DI SPECK AND GORGONZOLA PIZZA SHOWS HOW WE ARE CREATING NEW RECIPES FOR CONSUMERS WHO INCREASINGLY WANT TO BE INSPIRED BY EXCITING NEW FLAVOURS AND FRESH QUALITY INGREDIENTS.

UNDERSTANDING OUR MARKET

Our aim is to understand consumer diversity and deliver commercially successful products across three distinct markets.

Across the UK, US and China, our consumers consistently look for three key features of fresh prepared food: taste, fresh and healthy and convenience.

Our Bakkavor Insights teams are focused on ensuring products reflect these features and also match the changing consumer lifestyles and trends particular to each region.

OUR KEY MARKET DRIVERS

TASTE

The combination of romaine lettuce, parmesan cheese and anchovies brought together as the Caesar salad is famous across the globe. In the UK, our team created the iconic chicken caesar wrap from the original recipe, and it has now been a successful product for our major retail customers for many years. Purchased as a lunch option from the 'Food to Go' counters in our major retail customers, it is primarily eaten on-the-go and straight from the pack.

In China, we modified the chicken caesar wrap to suit the local market. Working with our customers we developed the wrap into a popular, smaller breakfast option, often served heated. In response to its success, we have created further products in the year by mixing Asian flavours with western cuisines, including the mala chicken wrap and the five-spice beef wrap.

The bread category is another example of where we are rolling out our UK expertise internationally. We successfully introduced chilled garlic bread to the UK palate over a decade ago; a product now purchased by over 60% of the households in the UK. As we know that chilled breads are not a well-known concept in the US, we have used our expertise in this category instead to successfully fill the gap for premium topped ambient breads. Similarly in China, we know that the consumer enjoys a much softer, lighter bread eat, and our new facility is focused on achieving distinctive products that meet this preference.

FRESH & HEALTHY

Over half of consumers cite health considerations as a factor in their purchase decisions. Whilst in the UK this simply meant low-calorie and low-fat ranges a decade ago, this view has developed further. For example, vegan food has emerged in the last year to become a mainstream staple. As such, we have launched an increasing number of ranges which cater for consumers who are looking for new and innovative plant-based convenience across wraps, pizzas and ready meals.

In the US, we are focusing on the importance of ingredients and bringing many of the trends which have proved successful in the UK to drive fresh growth in a geography where frozen and ambient have historically been dominant. With this in mind, we have developed a new brand in meals and dips.

Similarly in China, whilst the demand for healthy and fresh food solutions is high, the FPF market accounts for a much smaller share of consumer spend than in the UK. The key to unlocking growth is consumer trust. The team in China have worked to create and launch a new brand called Fresh Kitchen to give a clear brand identity to healthy and fresh products. Fresh Kitchen is now established as a convenience retail range with a branded fresh food counter and food-to-go fixture, and the first online products have now launched.

CONVENIENCE

Consumers want us to help make their lives easier and help them get time back. Fresh, quality food, combined with convenience, is a recipe for success.

In the UK, over two-thirds of our consumers tell us they are always busy. For some, shopping online helps them plan their time better, while for others the ability to pop into a small store on the way home is a daily helping hand. Whichever way our consumers choose to shop, we try to ensure our ranges are easy to access.

In the US, consumers eat out as often as they eat at home. Again, this behaviour has shaped the market, which is still dominated by large stores, which must work hard to inspire consumers against a strong foodservice sector. Perimeter shopping for fresh meals is growing rapidly and store formats are changing to allow shoppers access to FPF more easily.

In China, foodservice outlets and coffee channels dominate the landscape. For the foodservice channel, offering products that can be easy to use in store is important. In order to achieve freshness and convenience, we deliver products like leaf base, mix grains and dressings in individual ingredient bags to our customers. The consumer can then be served a finished meal in a quick and simple way.

HOW WE ARE RESPONDING

WE REDEFINE TASTE

It's about exploring and discovering flavours you will love

WE MAKE FRESH RELEVANT

It's about health, trust, honesty and integrity

WE GIVE PEOPLE MORE TIME

It's about buying time with family and friends or for yourself

WE CREATE MEAL SOLUTIONS

It's about providing accessible options no matter what the occasion

WE ENABLE PEOPLE TO MAKE A DIFFERENCE

It's about being able to meet the demands of the socially-conscious

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 constant 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 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 and our commitment to operational excellence.

STRATEGY IN ACTION

- Whilst the UK operating environment has been challenging due to ongoing cost inflation and an intensely competitive market, we have maintained our number one position in the UK FPF market.
- We strengthened our long-standing customer relationships and the breadth and depth of our category offering.
- We put in place a number of pricing mechanisms with our key customers to better manage inflationary pressures.
- We continued to invest in consumer insight and product innovation and have launched a number of new ranges in response to trends such as vegan and 'free from'.
- We strengthened our desserts capabilities with the acquisition of Haydens in Devizes, as well as the ongoing expansion of our desserts site in Newark. Both provide increased capacity, market-leading innovation and state-of-the-art automation.

STRATEGIC PRIORITIES FOR 2019

- We continue to focus on working alongside our customers to navigate ongoing market uncertainty and low levels of consumer confidence.
- We continue to review the potential impacts on the business of Brexit and will update operational plans accordingly to limit any impact.
- We continue to review new ways to gather consumer insight given the rapid growth of customer data and emergence of new technologies.
- We remain focused on maximising the returns from our investments and, in particular, driving our growth in the desserts category.
- We continue to review site capacity and capabilities in order to optimise efficiencies and maximise profitability across our estate.
- We continue to embed our new UK leadership structure.

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 providing nationwide supply

STRATEGY IN ACTION

- Strong underlying volume growth with all key customers:
- In the US:
  - We developed a partnership with a significant new customer in Texas and opened a dedicated site for this customer in October 2018.
  - We continued to focus on developing our position in 'super' categories – dips, soups, sauces and ready meals. This included a major project on improving hummus capability.
- In China:
  - Our large scale investment in a state-of-the-art factory in Shanghai came online in the second half of 2018 and provides increased capability. We also invested in a new facility in Chengdu. Both investments provide increased capacity to support customer growth plans.
  - We continued to develop our supply chain capabilities to bring more of our raw materials in-house, including investment in hydroponics technology.
- In both markets, we developed our category presence in the premium artisan breads market, with the opening of new bakeries in Taicang, outside Shanghai, and Charlotte, North Carolina.

STRATEGIC PRIORITIES FOR 2019

- In the US:
  - We continue to build our presence in the 'super' categories, through both East and West Coast supply.
  - We are investing in our hummus processing capability and diversifying our offering to include hummus meals.
  - We are committed to investing behind our meals category core capabilities to develop our strategic partnerships.
  - We continue to focus on optimising site performance, including access to skilled and relevant labour.
- In China:
  - We remain focused on leveraging recent large-scale investment in new facilities to deliver growth with existing customers in our current categories.
  - We continue to expand our core category offering and review new opportunities within the marketplace.
  - We continue to test other channels in the market as we leverage capacity.
- In both markets, a key focus is leveraging our UK expertise to ensure successful launches of the speciality bread 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

- Our operational finance team remains focused on identifying instances of operational excellence that can be replicated across the Group. The team adopts a three-pillar approach, focused on intervention, improvement and investment. We bolstered the team during the year to provide us with greater strength and expertise in this area.
- We delivered a number of efficiency improvements in the year through automation, energy savings and reduced waste.
- In the UK, we reviewed the organisational structure of the business to leverage our asset base more effectively and strengthen our customer partnerships.
- We leveraged UK expertise to support our international operations, including dedicated resource embedded within new site investments.

STRATEGIC PRIORITIES FOR 2019

- We continue to actively seek opportunities for further efficiency improvements in order to optimise profitability.
- In the context of the current labour environment, we remain focused on opportunities to reduce our reliance on labour and improve process standardisation across the Group.
- The operational finance team continues to build an extensive pipeline of projects and capital investment opportunities.

FOR MORE INFORMATION ON HOW WE ALIGN OUR STRATEGIC PRIORITIES TO OUR PRINCIPAL RISKS, SEE PAGE 27.

FRESH INVESTMENTS

TO SUPPORT FRESH PARTNERSHIPS

Gary McEvoy, General Manager, Bakkavor US
I run our new site in Texas – a dedicated factory for a major retailer, which we opened in October 2018. It's been great to see the development project unfold and exciting to see the significant change taking place across their stores as they prepare to offer more and more fresh prepared food to consumers. This is the way stores are changing in the US and it's great to be part of that shift. It's also been hugely helpful to take advice from our UK teams!

IN 2014, WE WORKED CLOSELY WITH A CUSTOMER TO LAUNCH THE FIRST FRESH BURRITO PRODUCT IN THE US AND WE CONTINUE TO EXPAND AND SUCCESSFULLY DEVELOP THIS PRODUCT RANGE TODAY.

WE DELIVER THE BEST FOR OUR PEOPLE AND CUSTOMERS

"We delivered a robust performance in 2018, successfully driving growth across our UK and International businesses against a backdrop of significant market challenges. This reflects our market-leading expertise in producing great-tasting fresh food, the quality of our people and our strong partnerships with customers."

A YEAR OF FURTHER STRATEGIC PROGRESS

I am pleased to report that we made further strategic progress in 2018. We continued to focus on the drivers of long-term sustainable growth: leveraging our number one position in the UK fresh prepared food market, accelerating growth in high-potential international markets and further improving our operational efficiency.

Once again, our excellent customer relationships, together with our scale and expertise, reinforced our market-leading position across our fresh prepared food categories.

Group reported revenue increased by 2.2% from £1,814.8 million to £1,855.2 million in 2018, with like-for-like revenue[1] up 3.2% in the year to £1,842.0 million. This was a robust performance given the continued challenging market conditions in the UK, especially the high levels of inflation and weak consumer confidence.

Adjusted EBITDA[1] increased by 0.6% from £152.6 million to £153.5 million in 2018. Operating profit decreased by 11% from £96.2 million to £85.6 million in 2018. This decrease was primarily due to an increase in pre-commissioning and start-up costs for the International business. Trading performance before these costs, in an environment of limited volume growth, improved slightly compared with the prior year as efficiency benefits and a tight control of overheads helped offset inflationary pressures.

The business generated strong free cash flow[1] of £55.1 million compared to £71.1 million in the prior year. The decrease was largely due to higher capital expenditure and a small working capital outflow in the year.

We should all feel proud of our ability to maintain our profitability in these challenging times. To achieve so much is testament to the skills and commitment of over 19,000 people across our Group which, together with our focus on operational excellence, give me confidence in our long-term future.

BUILDING FOR THE FUTURE

In the UK, we continued to leverage our number one position, further increasing our overall market share. In particular, we extended our leading position in the desserts category supported by a major investment at our site in Newark and the acquisition of Haydens Bakery Limited in September 2018 for a total consideration of £11.4 million. With Haydens, there is clear alignment in values and customer mix and the integration of the business is well under way. We extend a warm welcome to the team of around 480 people based in Devizes, Wiltshire, who are now part of the Bakkavor Group. In the UK, we also completed the sale in July 2018 of Anglia Crown Limited, a non-core business focusing on the provision of frozen and chilled meals to hospitals and care homes.

During the year we made good progress on delivering our international strategy of long-term sustainable growth. In particular, I am pleased to report that, in the US, we opened two new factories in San Antonio and Charlotte, continuing to build our presence in this important market and introducing the premium artisan bread category to US consumers.

In China, we continue to invest and support our customers' ambitious growth plans, bringing Western-style foods and technical standards to this market. We recently completed the construction of our new state-of-the-art facility in Shanghai, which will bring us much-needed additional capacity in this important region.

GROUP FINANCIAL HIGHLIGHTS

£ million	2018	2017	Change
Revenue	**1,855.2**	1,814.8	2.2%
Like-for-like revenue[1]	**1,842.0**	1,784.6	3.2%
Adjusted EBITDA[1]	**153.5**	152.6	0.6%
Adjusted EBITDA margin[1]	**8.3%**	8.4%	(10)bps
Operating profit	**85.6**	96.2	(11)%

1. 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 40 of the Notes to the Consolidated Financial Statements.

INNOVATION DRIVES SUCCESS

Innovation is one of our core values and developing an innovative culture is key to our success. It is not just about introducing new products to market, but about challenging ourselves to think differently. Particular highlights in the year included a new vegan range in the UK, the launch of the Fresh Kitchen brand across 1,000 convenience stores in China and an exciting new range of breakfast products in the US.

To celebrate this commitment to innovation and share success across the Group, we held our seventh Bakkavor Innovation Awards in November. We received a record number of more than 100 entries this year from all parts of the business, reflecting the extent to which innovation and these awards are firmly embedded in everything we do.

A COMMITTED WORKFORCE

Our success is driven by the passion, dedication and commitment of all our people throughout the Group. I would like to thank everyone for their efforts and for the valuable contribution they make at Bakkavor. While I am in no doubt that we will face fresh challenges in 2019, I am confident we can deliver further success given the strength and depth of capabilities we have right across the Group.

To strengthen our workforce, we are continuing to focus on a wide range of initiatives to improve employee retention, minimise recruitment costs and heighten engagement across sites. In the UK, we have focused much time on our regional recruitment processes and also on labour planning to ensure delivery during peak times. We also continue to work closely with workforce providers to position ourselves as an employer of choice.

In addition, the safety of everyone who works on our sites remains an absolute priority. Unfortunately, during the year, we have seen an increase in reported major accidents across our sites and, as a consequence, we have focused on reinforcing the importance of adhering to established health and safety practices.

BOARD CHANGES

During the year, there were a number of changes to both the Board and Management Board. In April, the Board was further strengthened with the appointment of Jane Lodge, a highly experienced finance professional, as an Independent Non-executive Director and Chair of the Audit and Risk Committee. In July, Patrick Cook joined the Board as a Non-executive Director, replacing Bob Berlin. Patrick is a Principal at The Baupost Group and has significant investment experience across the food sector.

At a Management Board level, we were pleased to welcome Donna-Maria Lee as Group HR Director, replacing Pippa Greenslade who retired in September. I would like to thank Pippa for the invaluable contribution she made to the Group during her time with us. Since joining, Donna-Maria has made a strong impression and I am confident her wealth of experience will help us develop and grow our Group both in the UK and internationally. After the year end, we announced a change to the US senior management team: Ben Waldron, previously Head of Strategic Development, has relocated to Charlotte, North Carolina as President of Bakkavor US and has replaced Ivan Clingan, who will be returning to the UK following his three-year assignment. I extend my sincere thanks to Ivan for the valuable contribution he has made in helping to grow Bakkavor's presence in the US over the past three years. I am also delighted that Ben will be heading up the US business, and under his leadership I am confident that it will continue to grow from strength to strength in the years ahead.

A CAUTIOUS OUTLOOK

Our performance in 2018 was determined by challenging market fundamentals and our Group remained extremely focused on mitigating these impacts where possible. I am encouraged by what was achieved in light of such significant challenges.

Subdued consumer confidence and inflationary pressures have continued into 2019 and, therefore, we remain cautious and expect little improvement in underlying market conditions. Consequently, we expect limited growth in the UK and a corresponding decline in the Group's EBITDA margin in the first half of the year.

However, in the second half, we anticipate an uplift in UK revenues as we benefit from recently secured new business. Given this additional volume, together with the actions we are taking to protect profitability, we expect a significant improvement in our trading in the second half of the year and our full-year Group performance to be broadly in line with 2018.

Looking further ahead, we remain confident that our strategy, combined with our scale and expertise, leaves us well-placed to capitalise on further growth opportunities within the attractive FPF market, both in the UK and overseas.

OPERATIONAL REVIEW

UNITED KINGDOM

The UK is Bakkavor's largest market, representing around 89% of overall Group sales. Producing innovative food that offers quality, choice, convenience and freshness for consumers is the foundation of our success and continued to drive our performance in the UK.

Against a backdrop of challenging market conditions, we reinforced our leading position across the attractive FPF categories, continued to work in close partnership with our strategic customers and gained overall market share during the year.

We produce over 2,000 short shelf-life products, the majority of which are manufactured and delivered to our customers every day. Our proven operating model in dealing with complexity, scale and agility continued to give us a unique competitive advantage and enabled us to respond and adapt quickly to deliver outstanding service levels in 2018.

Focused on optimising performance

Our UK business generated £1,653.6 million of reported revenue in 2018, up 1.1% compared to the prior year. Like-for-like revenue[1] was £1,635.0 million, 1.8% up on 2018.

As expected, the start of the year saw a period of low volume growth as a consequence of further retail price inflation and subdued consumer sentiment. Volumes picked up from April through the summer period, helped by better weather and events such as the Royal Wedding and World Cup. However, from September consumer confidence noticeably weakened across the grocery sector as shoppers reverted to more cautious spending patterns. With underlying market growth limited, volume uplifts in our UK business in the second half of 2018 were largely due to a number of business wins in our core categories.

Adjusted EBITDA[1] for the year was £147.7 million, up on the £145.2 million reported in 2017. The year saw further significant raw material inflation, driven particularly by dairy products in the first half and protein and vegetables in the final quarter. The scale and expertise of our central procurement team enabled us to leverage our buying power and limit the consequences of these industry-wide cost pressures. In parallel, our commercial teams continued to work closely with our customers, reviewing product design, promotional strategies and pricing to minimise the inflationary impact.

The UK business also continued to be impacted by rising labour costs. In a period of high employment and wage growth at a 10-year-high, we also saw particular pressures from further increases in the National Living Wage, a step-up in auto-enrolment pension contributions and the full-year impact of the Apprenticeship Levy.

The combination of limited volume growth and an inflationary environment resulted in margins being under pressure throughout the year. However, through a combination of productivity improvements and tight cost control across the business we were able to maintain the adjusted EBITDA[1] margin at 8.9%.

As we continue to focus on new ways to optimise business performance, in the latter part of 2018 we reviewed the organisational structure of our UK business and introduced a simplified model in early 2019. The new structure will enable us to leverage our asset base more effectively under our four key categories and further strengthen our strategic customer partnerships.

In addition, our operational teams remain focused on reviewing capacity and capabilities across our sites to optimise efficiencies and maximise profitability. As a consequence of this ongoing process, we have started a consultation process regarding the proposed closure of one our meals sites in Lincolnshire. This business has experienced a number of challenges in recent years such that it was loss-making in 2018, with a further decline expected in 2019.

UK FINANCIAL HIGHLIGHTS

£ million	2018	2017	Change
Revenue	**1,653.6**	1,636.3	1.1%
Like-for-like revenue[1]	**1,635.0**	1,606.1	1.8%
Adjusted EBITDA[1]	**147.7**	145.2	1.7%
Adjusted EBITDA margin[1]	**8.9%**	8.9%	–
Operating profit	**99.8**	94.9	5.2%

1. 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 40 of the Notes to the Consolidated Financial Statements.

Supporting our customers' growth plans

We partner with all the major UK grocery retailers and 85% of UK revenues were generated from our four largest customers: Tesco, M&S, Sainsbury's and Waitrose. These four long-term partnerships, each with a dedicated team, a bespoke plan and a long-term strategic vision for FPF, continue to form the core of our business.

Our product portfolio remains well balanced across categories, price points and seasonal changes in consumer eating patterns. This year-round offering, combined with the strength of our operating model for producing FPF products at scale, continued to give us a competitive advantage in the UK market.

For example, unusually cold weather in February and March, followed by record summer temperatures, presented considerable challenges to our salads supply chain. However, our central procurement expertise, combined with strong relationships with growers, enabled us to maintain production and continuity of supply. The summer months also saw our customers launch a number of promotional and marketing initiatives based around major events including the Royal Wedding and World Cup. These events generated a material uplift in volumes and it is thanks to our proven operating model that we were able to manage the short-term spikes in demand.

Our extensive knowledge and experience of great-tasting food, combined with our ability to anticipate the latest food trends, is widely recognised by our customers. For example, our expertise in new product development enabled us to work with one of our strategic customers in refreshing almost 250 of its products across multiple categories as part of a major relaunch of its own label offering. In addition, during the Christmas period, which is always a busy time in our business, we once again showcased a number of innovative seasonal items across our core categories, many of which were well publicised in the media.

Consumer trust in food quality is a key part of our business model. During the year, we had numerous unannounced technical audits at our sites from our central team, our customers and external bodies, all of which confirmed we are operating to the highest standards.

Looking forward, there remains a high level of uncertainty surrounding the outcome of Brexit. We continue to review the potential impacts on the business and update our operational plans accordingly to limit any possible risks. These include the implementation of an enhanced employee retention programme and taking measures to minimise disruption to our raw materials supply chain.

Investing in capacity and capability

During 2018, we made further investments in the UK to both manage our capacity and support our customers' growth plans. For example, we have an ongoing programme to enhance our leaf processing capabilities which is due to be completed in early 2019. Furthermore, our capital investment plans continued to target efficiency benefits through numerous automation projects across the manufacturing and packing process.

In 2017, we announced our intention to invest £35 million to expand our desserts site in Newark, increasing capacity and capability to support a major business win and introducing state-of-the-art automation to support efficiency. The investment, which markedly strengthens our desserts business, is now in its final phase of development and is expected to be fully operational in Q3 2019.

During the year, we also broadened our desserts offering through the acquisition of Haydens from Real Good Food PLC for a total consideration of £11.4 million. Haydens is a leading manufacturer of sweet bakery products for the major UK grocery retailers and also provides a distribution operation for a leading retailer. A recent capital investment of £15 million into the site by its previous owners transformed Haydens into a best-in-class bakery operator. This acquisition further increases the scale of our bakery desserts offering and has already started to realise operational synergies following a smooth integration.

INTERNATIONAL

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

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

Delivering good underlying volume growth

Our International segment now represents around 11% of Group revenue. Both businesses continue to operate in highly attractive markets and delivered good underlying volume growth in the year.

The International segment generated £201.6 million in revenue in the year compared with £178.5 million in the prior year. On a like-for-like[1] basis, revenues increased by 16% in the year to £207.0 million.

Adjusted EBITDA[1] for our International segment was £5.8 million for the year, compared with £7.4 million in 2017. Both businesses have been particularly impacted by rising labour costs and further investment in our technical infrastructure to support the pace of growth.

Whilst we have continued to invest in operations and infrastructure in both regions, it has also been a year of transition for our US business, and this has had an impact on overall profitability. Operating profit decreased by £15.5 million from a £1.3 million profit in 2017 to a loss of £14.2 million. This decrease was primarily due to the start-up and pre-commissioning of factories in the US and China, combined with disruption costs incurred as we repurposed part of an existing US site to capitalise on the growing prepared meals market.

United States

In the US, consumers continue to move away from frozen and long-life products in favour of fresh and healthy chilled products. US retailers in turn continue to develop their chilled proposition to capitalise on this increased demand by extending the range they offer and giving it greater prominence in-store – our largest customer in Texas for example has invested heavily to reconfigure stores to showcase their offering. These dynamics have supported significant revenue growth in 2018 for our US business.

As we expand and develop our product range across sites, this pace of change can present operational challenges. During the year, we reviewed the manufacturing processes behind some of our key products, particularly hummus, to improve quality and reinforce leading technical standards. In the short term, this led to an increase in operating costs while we embed these changes to our processes, but we expect this project to be completed by the autumn of 2019 when we will start to realise the benefits.

In addition, we made substantial changes to our site in California, repurposing part of the factory to give us the capabilities to manufacture ready meals in volume and, as expected, this project caused some level of disruption. Construction work is largely completed, and we will now be focused on building up sales volumes and improving efficiencies.

In October, we officially opened a new factory in San Antonio dedicated to supplying a key customer with an increased range of fresh meals. The range has been extended following completion of our new facility, and we have a joint business plan in place with the customer to drive future growth. The project, which benefited from our UK expertise across key functions, was delivered on time and to budget.

We also opened another new factory in Charlotte, North Carolina, to manufacture a range of high-quality artisan breads that can be distributed nationally across the US. We are in the final stages of commissioning the site and expect to launch these products during Q2 2019 in response to good levels of interest from a number of potential customers.

INTERNATIONAL FINANCIAL HIGHLIGHTS

£ million	2018	2017	Change
Revenue	**201.6**	178.5	12.9%
Like-for-like revenue[1]	**207.0**	178.5	16.0%
Adjusted EBITDA[1]	**5.8**	7.4	(21.6)%
Adjusted EBITDA margin[1]	**2.9%**	4.1%	(120)bps
Operating profit	**(14.2)**	1.3	–

1. 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 40 of the Notes to the Consolidated Financial Statements.

China

In China, we continued to develop our presence in the foodservice markets as our key customers rapidly expand their store and restaurant portfolios. Looking ahead, this gives us a platform to continue our investment programme to keep pace with our customers' growth ambitions.

Our Chinese business reported a good year with strong growth on the back of significant planned investment. Our reputation and credibility continue to improve in this dynamic market, and the transfer of our UK expertise has been an important factor in this success. We continue to develop our 'on the ground' insights capabilities and, in addition, our investment in new product development capabilities has broadened our offering to major customers, including for example the development of a fresh soup offering.

This year has seen the introduction of three new factories in China. The first is a new state-of-the-art, multi-product and multi-customer factory in Shanghai. The site is now in early production phase delivering a range of salad and 'Food to Go' products and will provide much-needed additional capacity in this high-growth market.

Secondly, we completed an investment in a new high-quality bread facility near Shanghai which gives our Chinese business the opportunity to capitalise on the Group's in-depth knowledge of this category. Finally, we invested in a new facility in Chengdu, Western China, to supply a number of our customers as they expand in this vibrant region. In addition, we continue to operate from our facility in Hong Kong and maintain our 45% share of La Rose Noire.

We also continue to develop our supply chain and bring more of our raw material supply in-house. For example, we are investing in an innovative greenhouse complex using the latest hydroponics technology that both improves quality and broadens seasonal availability.

AGUST GUDMUNDSSON
Chief Executive Officer

5 April 2019

FRESH COMMITMENT

TO FRESH NEW TASTES

Kendra Shan, Technical Director, Bakkavor China

I work at the Haimen factory in Shanghai which has recently been expanded and equipped with the latest technology and processing capability. The factory is unique in China and gives us a real point of difference in food technical standards and quality.

THROUGH OUR 'FRESH KITCHEN' BRAND WE ARE BRINGING WESTERN-STYLE, FRESH, CONVENIENT FOOD-TO-GO PRODUCTS SUCH AS CHICKEN CAESAR SALADS AND WRAPS TO THE CHINESE CONSUMER.

MEASURING OUR PROGRESS

We measure our progress by focusing on a number of financial and non-financial performance measures which support our strategy. Four of these form the basis of our employee incentive plans.

REPORTED REVENUE[2]

+2.2%

2018	**£1,855.2m**
2017	£1,814.8m

The increase in 2018 was largely due to price increases and business wins in the UK and strong growth in both the US and China, where sales volumes increased across all key customers.

LIKE-FOR-LIKE REVENUE[1]

+3.2%

2018	**£1,842.0m**
2017	£1,784.6m

Revenue growth at a constant currency excluding acquisitions, closed and sold businesses was due to higher prices in the UK and an increase in volumes across the business.

ADJUSTED EBITDA[1,2]

+0.6%

2018	**£153.5m**
2017	£152.6m

The small increase was due to efficiency benefits and a tight control of overheads more than offsetting the inflationary pressures in the year.

FREE CASH FLOW[2]

-£16m

2018	**£55.1m**
2017	£71.1m

This was lower in 2018, largely due to expenditure on core capital (excluding development projects) being £4.6 million higher than 2017. There was also a small working capital outflow this year, largely due to an increase in inventory for new international factories.

ADJUSTED EARNINGS PER SHARE[1,2]

+1.4p

2018	**14.7p**
2017	13.3p

This increase reflects both the improvement in trading for the business and a reduction in finance costs in the year. Basic earnings per share has increased from 5.8p for 2017 to 11.6p in 2018 due to lower Other items and the benefit from the refinancing and the primary proceeds received from the public listing in 2017.

LEVERAGE RATIO (NET DEBT / ADJUSTED EBITDA[1])

-0.2x

2018	**2.0x**
2017	1.8x

As expected, the leverage ratio has increased largely due to the expenditure on the development projects. It remains within the Group's target range of 1.5 - 2.0 times.

ACCIDENTS RESULTING IN LOST TIME > 7 DAYS (PER 100K EMPLOYEES)

+5.3%

2018	**400**
2017	380

There was an increase of 5.3% in accidents resulting in lost time of greater than seven days. The Group continues to focus on a number of initiatives to improve on this result.

UK EMPLOYEE TURNOVER[2]

-0.6%

2018	**22.1%**
2017	22.7%

The Group recognises the importance of attracting and retaining a skilled workforce and during 2018 the UK business introduced a number of new initiatives to improve performance in this area.

UK TOTAL GROSS CARBON EMISSIONS

-8.4%

2018	**176,733**
2017	192,998

Emissions in the UK decreased by 8.4% in 2018 as we moved to a renewable electricity supply contract across our sites. During the year, the Group captured carbon emissions from its US and China sites and, combined with the UK, Total Group Gross emissions was reported as 232,788.

1. 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 40 of the Notes to the Consolidated Financial Statements.
2. The Group's bonus scheme and long-term incentive awards are based on performance across a selection of four KPIs. See pages 75 to 76 in the Remuneration Report.

The KPIs set out above are those that are reported internally in the business.

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 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 clear policies as to what can be considered an acceptable level of risk.

Bakkavor maintains a formal Risk Register which is updated regularly and 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 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 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 each risk, with clear allocation of responsibilities and timescales for completion. Progress towards implementing these plans is monitored and reported back to the Board through the Audit and Risk Committee as part of a structured business review.

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 Board, is responsible for the independent review of the effectiveness of risk management and the internal control system.

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 policies for ensuring workplace safety.

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

Food quality – The Group maintains strict controls regarding the authenticity, quality and labelling 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 practical efforts are made to mitigate risk in this area.

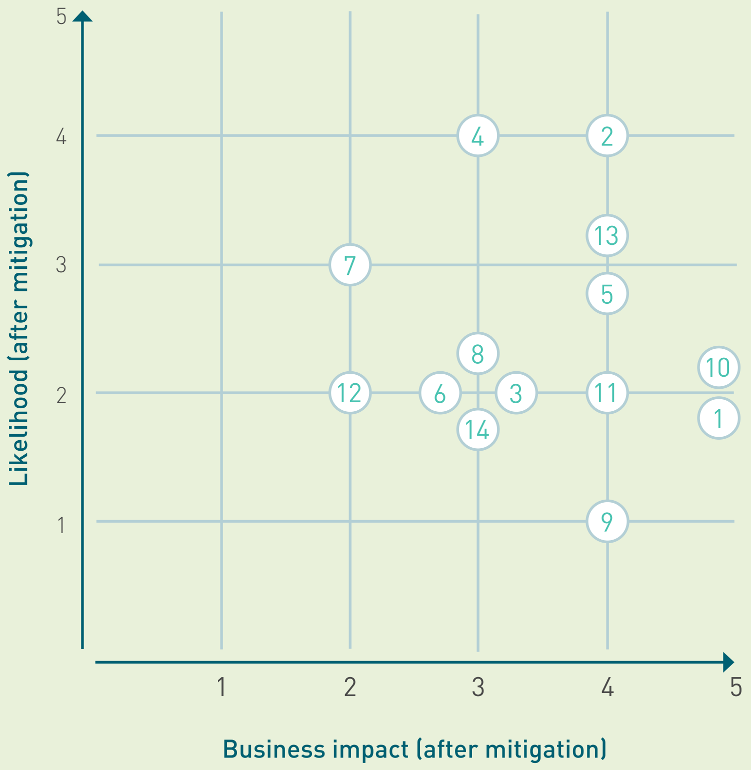
The business takes a measured approach to overseas investment to minimise risk exposure. Whilst significant capital expenditure has been invested in the US and China, these are markets within which Bakkavor has operated for many years. Therefore, whilst there is an element of risk in all investments,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

2019 PLAN

Following the IPO in November 2017, the Group is now subject to increased regulation as a listed company and has appointed a Head of Risk to lead the development of its internal controls.

Brexit continues to be an area of focus given the relative scale of our UK business. The resulting uncertainty has affected the value of sterling and labour retention in particular and further developments continue to be monitored closely. During the year the Group established a working group made up of senior members of key functions to keep under review developments surrounding Brexit. Bakkavor was also awarded Authorised Economic Operator status during the year which we believe will help speed up the importing process in the event of border controls being introduced.

RISK ASSESSMENT MAP



1 Food safety and integrity
2 Raw material and input cost inflation
3 Reliance on a small number of key customers
4 Manpower scarcity and costs
5 IT systems and cyber risk
6 Health and safety
7 Recruitment and retention of key employees
8 Investment and development
9 Liquidity, interest rates, exchange rates and covenant compliance
10 Brexit disruption
11 Disruption to Group operations
12 Sustainability
13 Consumer behaviour and demand
14 Competitors

In 2018, the Group extended its principal risks and uncertainties to include investment and development, Brexit disruption, disruption to Group operations, sustainability, consumer behaviour and demand, and competitors.

PRINCIPAL RISKS AND UNCERTAINTIES

Change in risk level over past 12 months

Key

Change in risk level over past 12 months

higher level lower

Link to strategic priorities

1 Leveraging number one position in the UK

2 Accelerating growth in high-potential international markets

3 Improving operational efficiency

RISK AREA	RISK DESCRIPTION	MITIGATING CONTROLS	RISK TREND 2018
Food safety and integrity 1 2 3	Millions of people eat our products every day. We have a duty to make food that is safe and is clearly labelled. 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 principles to identify and control food safety risks. Employees trained against documented procedures. Food safety controls regularly audited by internal and external parties. Emerging risks monitored by working with industry and regulatory bodies. Food safety audits conducted for new suppliers with, regular audits of existing suppliers. Regular reporting of food safety performance to the Board and immediate reporting of significant issues.	The level of risk has remained unchanged.
Raw material and input cost inflation 3	The Group's cost base and margin are vulnerable to fluctuations in the price and availability of raw materials, packaging materials and freight. 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. Forward purchasing agreed and price variations passed on where possible. Agreements in place with some customers on recovery of raw material cost impacts. Continued focus on cost reduction and productivity enhancements.	The risk has marginally increased due to ongoing uncertainty around Brexit.
Reliance on a small number of key customers 1 3	We work with four of the largest food retailers in the UK and a significant proportion of our revenue is from these customers. 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. Relationships with all grocery retailers beyond the four largest gives breadth of cover. Strong reputation for food safety and quality. Reputation amongst customers for strong insights and innovation capabilities. Significant investment in manufacturing facilities and highly complex 'just in time' manufacturing process.	Customer concentration has remained unchanged.

RISK AREA	RISK DESCRIPTION	MITIGATING CONTROLS	RISK TREND 2018
Manpower scarcity and costs 1 2 3	Manpower scarcity and higher labour costs could affect the Group's business and future profitability. The Group competes with other manufacturers for good and reliable employees. The supply of such employees is limited and competition to hire and retain them may result in higher labour costs. Additionally, for the Group's UK operations, Brexit presents a risk as historically the Group has employed a material number of citizens from elsewhere in the European Union.	Specific campaigns and focus groups in place targeting recruitment of future employees and building attractiveness of careers in the food industry. Initiatives in place to enhance and upgrade factory site facilities to help attract and retain employees. Central staff dedicated to recruitment and management of staff costs. Initiatives in place to support employees with Brexit-related concerns.	Brexit concerns have increased the risk.
IT systems and cyber risk 1 2	Unauthorised access of the Company's Information Technology ("IT") systems could lead to breaches of data protection and release of market sensitive information. 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 in the UK through strong password protection, role-based access to business systems and policies to ensure appropriate use. The Group IS department has delivered Disaster Recovery ("DR") for all critical systems in the UK and is working towards delivering DR for other important systems. Group IS has strict policies and actively ensures UK IS infrastructure and equipment are sufficiently protected against malicious cyber attacks. Local teams in the US and China are developing our IS infrastructure capabilities.	Cyber threats have become more common in the wider economy. Whilst the Group has increased investment in this area, overall the risk has marginally increased.
Health and safety 1 2	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 locally by our teams and managed by the Group's in-house experts who embed and monitor practices. Stringent processes are implemented for identifying and managing H&S and environmental risks. Regular reporting of H&S Key Performance Indicators to the Group Board and immediate reporting of significant issues. Culture of employee engagement around accident prevention across the Group.	The level of risk has remained unchanged.
Recruitment and retention of key employees 1 2 3	We have a highly experienced 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. 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. Ongoing succession planning, commitment to training and bonus schemes in place to retain key personnel and manage staff turnover.	The risk is marginally higher due to an increased requirement for skilled labour across our international businesses.

RISK AREA	RISK DESCRIPTION	MITIGATING CONTROLS	RISK TREND 2018
Investment and development 1 2 3	Much of our future growth will be delivered from new factory builds and acquisitions. This adds a level of execution risk to continuing operations.	Detailed planning and sharing of best practice within the Group minimises risk.	Increased investment in development projects has increased execution risk.
Liquidity, interest rates, exchange rates and covenant compliance 3	To achieve our growth objectives, we require a strong financial platform. The Group has significant facilities governed by financing agreements under which we are subject to various financial covenants and undertakings. 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. Open and regular dialogue with our lenders and an active investor engagement programme. Treasury function operates within framework of strict Group Board-approved policies and procedures. Active foreign exchange hedging programme maintained. Active policy of hedging known non-sterling denominated expenditure both for specific projects and on a rolling basis for material purchases.	Liquidity metrics have remained unchanged.
Brexit disruption 1	It is possible that the way in which Brexit is delivered will result in disruption at the UK ports leading to increasing costs and availability problems, especially with short life raw materials, which ultimately might impact sales volumes.	We have recently obtained AEO status which should help us streamline and simplify our import processes. Longer-life packaging and raw material stocks will be increased as necessary.	Current uncertainty regarding the outcome of Brexit has increased the risk.
Disruption to Group operations 1 2	Catastrophic damage to one of our food factories by fire, flood or IS disruption would interrupt supplies.	Building and property management protocols are employed and audited in conjunction with our property insurers. Business continuity plans are in place and for many products alternative Bakkavor factories could supply in the event of a major issue.	The level of risk has remained unchanged.
Sustainability 1 2 3	To continue with our growth agenda we must ensure that the business is developing in a sustainable way.	We are increasing our focus and monitoring of performance and development in relation to carbon, waste, water, plastics and responsible sourcing.	Increased pressure from our customers and consumers to demonstrate sustainability has increased the risk.
Consumer behaviour and demand 1	Changes in consumer demand due to a serious change in the UK economy or other consumption factors could impact our plans.	We work closely with our customers to adapt to changing consumer trends.	Higher prices arising from weaker sterling and changing demand focus has increased risk.
Competitors 1 2	The Group operates in a highly competitive market.	Developing and maintaining strong working relationships with our customers underpinned by high service levels and constant product development and innovation.	The level of risk has remained unchanged.

VIABILITY STATEMENT

In line with Provision C.2.2 of the Governance Code, the Directors have carried out a thorough review of the prospects of the Group and its ability to meet its liabilities through to at least the end of December 2021.

The business operates in a fast-moving sector with a high number of products introduced each year. The Group has to adapt to meet the changing needs of customers and consumers; therefore the Directors have 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 have assessed the principal risks to the business and the key mitigating actions used to address them. This assessment included the potential disruption to the business arising from the way in which Brexit is ultimately delivered. 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.

Whilst all the risks identified, including food safety and integrity, could have an impact on the Group's performance, the specific risks which could potentially impact the Group's financial position include a reduction in sales volumes, 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.

As part of the Group's annual strategic planning the Group prepares a detailed financial model which forecasts the consolidated Income Statement, Balance Sheet, Cash Flow, covenant performance and liquidity requirements of the Group for a three-year period. Sensitivity analysis is performed on this model taking account of the potential financial impact of the specific risks outlined above, including Brexit.

The majority of the Group's debt facilities mature in June 2021, and therefore these facilities will need to be refinanced during 2020. Based on current trading performance and future expected trading, the Directors do not see any reason why the debt facilities will not be refinanced on similar terms to those currently in place.

Having taken account of the sensitivity analysis and the availability of adequate financing facilities, the Directors consider that the Group will be able to continue in operation over the three-year period to the end of December 2021.

ROBUST PERFORMANCE IN A CHALLENGING ENVIRONMENT

"The Group delivered a robust performance in 2018 given the continued challenging market conditions in the UK, with a combination of high levels of inflation and weak consumer confidence."

REVENUE

Reported revenue increased by £40.4 million, or 2.2%, from £1,814.8 million in 2017 to £1,855.2 million in 2018.

Like-for-like revenue[1] was up 3.2%, from £1,784.6 million in 2017 to £1,842.0 million in 2018. This increase was primarily due to good growth in the Group's operating segments, as described below.

SEGMENTAL BREAKDOWN

UK

In the UK segment, reported revenue increased by £17.3 million, or 1.1%, from £1,636.3 million in 2017 to £1,653.6 million in 2018.

Like-for-like revenue[1], which excludes Anglia Crown and Melrow Salads that were sold and closed in July 2018 and November 2017 respectively and Haydens Bakery which was acquired in September 2018, increased by 1.8%, from £1,606.1 million in 2017 to £1,635.0 million in 2018. Anglia Crown contributed revenues of £6.2 million in 2018 for the period up to its sale. Haydens Bakery contributed £12.4 million to reported revenue in the four-month period following its acquisition.

This like-for-like revenue[1] increase for the year was split equally between the impact of higher prices and volumes. The raw material inflation seen last year continued into 2018 and consequently further significant price increases were recovered from customers, particularly in the first half of the year. Volume growth has been limited for the year as a whole as consumer confidence weakened in the current economic environment. The growth that has been seen in the second half of 2018 was largely due to business wins in our core categories.

INTERNATIONAL

In the International segment, reported revenue increased by £23.1 million, or 12.9%, to £201.6 million in 2018 from £178.5 million in 2017. The strengthening of Sterling in the year adversely impacted reported revenue in 2018 by £5.4 million.

Like-for-like revenue[1], which is at constant currency, increased by 16.0%, from £178.5 million in 2017 to £207.0 million in 2018. The increase was primarily due to strong growth in both the US and China, where sales volumes increased across all key customers helped by a broader offering in these two markets.

COST OF SALES

Cost of sales increased by £39.5 million, or 3.0%, from £1,329.1 million in 2017 to £1,368.6 million in 2018.

Costs increased partly from the volume growth in the year. However, the majority of the increase was due to further raw material inflation driven by dairy products in the first half and protein and vegetables in the final quarter. This was combined with the impact of further increases in the National Living Wage and pension auto-enrolment on labour costs in the UK.

GROSS PROFIT

Gross profit increased by £0.9 million, or 0.2%, from £485.7 million in 2017 to £486.6 million in 2018.

This marginal increase was due to the benefits from the sales volume uplift being slightly more than the increase in raw material and direct labour costs.

DISTRIBUTION COSTS

Distribution costs for the year were flat compared to 2017 at £77.2 million.

OTHER ADMINISTRATIVE COSTS

Administrative costs increased by £6.7 million, or 2.1%, from £312.9 million in 2017 to £319.6 million in 2018.

Administrative costs for underlying activities excluding Other items increased by £0.6 million, or 0.2%, from £297.5 million in 2017 to £298.1 million in 2018. This was primarily due to tight control over costs in the UK more than offsetting the increases in infrastructure costs for the International businesses.

ADJUSTED EBITDA[1]

Adjusted EBITDA[1] increased by £0.9 million, or 0.6%, from £152.6 million in 2017 to £153.5 million in 2018.

This small increase was due to efficiency benefits and a tight control of overheads more than offsetting the inflationary pressures in the year.

OTHER ITEMS

Included within Other administrative costs are Other items which are adjusted for in determining the Group's APMs as management consider they should be disclosed by virtue of their nature or amount to determine the underlying performance of the business. Other items comprise the following:

£ million	2018	2017
Public listing costs	–	10.4
Restructuring costs	–	3.1
Legal cases	–	0.6
New site costs	12.4	1.3
Disruption costs	2.6	–
Onerous lease provision	1.7	–
GMP equalisation	2.6	–
Impairment	3.5	–
Gain on bargain purchase	(1.3)	–
	21.5	15.4

1. 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 40 of the Notes to the Consolidated Financial Statements.

2018

The Group has incurred £21.5 million of net costs presented as Other items in 2018 of which £12.4 million related to the initial start-up and pre-commissioning costs of new factories in the US and China and £2.6 million for disruption costs as the existing factory in California was repurposed for ready meal manufacturing. In addition, an onerous lease provision of £1.7 million was made in respect of the Group's non-core UK fast casual restaurant business and there was a charge of £2.6 million in respect of meeting the change in Guaranteed Minimum Pension ("GMP") for the defined benefit pension scheme which came into force from October 2018. The Group has also incurred an impairment charge of £3.5 million in the year in respect of tangible fixed assets as the relevant assets no longer have any future value to the Group, and also recorded a gain of £1.3 million on the acquisition of Haydens in September 2018.

2017

In 2017, the Group incurred costs presented as Other items of £15.4 million, of which £10.4 million were in connection with the public listing in November 2017, and restructuring costs of £3.1 million in the year related to the cost of closing a site in the UK and moving related operations to other sites. The remaining costs related to the Group's US business, of which £1.3 million was in respect of initial start-up costs for a new factory and the remaining £0.6 million was due to ongoing employment litigation.

SHARE OF RESULTS OF ASSOCIATES AFTER TAX

Share of results of associates after tax decreased by £0.2 million from £0.6 million in 2017 to £0.4 million in 2018. This decrease was due to an increase in the cost base of the Group's associate La Rose Noire Limited as it continues to expand its operations.

OPERATING PROFIT

Operating profit decreased by £10.6 million, or 11.0%, from £96.2 million in 2017 to £85.6 million in 2018 with margins decreasing by 70 basis points to 4.6%, primarily due to the performance of the International businesses and a number of Other items as explained above.

The operating profit for the UK segment, which is after a loss of £4.6 million from the sale of the Anglia Crown business in July 2018, increased by £4.9 million in the year from £94.9 million in 2017 to £99.8 million mainly due to a small improvement in trading performance and a reduction in the UK Other items in the year.

For the International segment operating profit decreased by £15.5 million from a £1.3 million profit in 2017 to a loss of £14.2 million. This decrease was primarily due to an increase in International costs for the start-up and pre-commissioning of factories in the US and China combined with disruption costs incurred as we repurposed part of an existing US site to capitalise on the growing prepared meals market.

Before Other items and the loss on disposal of a subsidiary, which are not expected to reoccur, the operating margins for 2018 were 10 basis points lower than 2017 at 6.0%.

FINANCE COSTS

Finance costs significantly decreased by £21.8 million, or 62.3%, from £35.0 million in 2017 to £13.2 million in 2018. The decrease is largely due to 2018 reflecting the full-year benefits of the refinancing of the Group's lending facilities carried out in March 2017 and the initial benefit from the primary proceeds from the public listing that year. In addition, 2017 included the payment of a call premium of £9.9 million in respect of the early redemption of the 2020 Senior Secured Notes and accelerated amortisation of £3.3 million for refinancing fees in relation to the previous debt, following the refinancing that year. Excluding these costs and the capitalisation of interest for qualifying assets, finance costs decreased by £7.3 million in 2018, which reflects the benefits of lower average 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 £27.7 million, from a loss of £22.2 million in 2017, to a profit of £5.5 million in 2018. This change was primarily due to the inclusion of a £17.2 million non-cash loss in 2017 on the fair value of the call option within the 2020 Senior Secured Notes following redemption of the Notes in March 2017 which reversed previous gains. In addition, in 2018 our results included a £4.2 million gain on the release of an amount in other payables, held at fair value, in respect of a potential liability for a disputed historical claim which has not materialised and is now time-barred. The Group also recorded mark-to-market gains of £1.1 million on its financial derivatives in 2018 compared to a loss of £2.1 million for 2017, and foreign exchange losses of £2.9 million in 2017 that reversed to a £0.2 million gain in 2018.

TAX

The Group tax charge for the year was £10.7 million, which was an increase of £2.7 million over last year. The £10.7 million charge represents an effective tax rate of 13.7% on profit before tax of £77.9 million. Most of the Group's profits were earned in the UK, where the statutory tax rate was 19% for 2018. The main reason for the lower effective rate was because of the increased recognition of deferred tax assets in respect of losses in overseas subsidiaries. These are only recognised to the extent that the losses are expected to be used against future profits. Excluding Other items, the effective tax rate was 14.9%. It is expected that the effective tax rate will rise to between 15% and 16% in 2019.

PROFIT FOR THE PERIOD

As a result of the foregoing, profit for the period increased by £36.2 million, or 116.8%, from £31.0 million in 2017 to £67.2 million in 2018. Excluding the impact of Other items, the profit for the year has increased by £14.4 million to £84.9 million.

EARNINGS PER SHARE

Basic earnings per share has increased from 5.8 pence for 2017 to 11.6 pence in 2018, reflecting a marginal improvement in trading performance, lower Other items and the benefit from the refinancing and the primary proceeds received from the public listing from 2017.

Adjusted earnings per share[1], which is calculated before Other items, has increased from 13.3 pence for 2017 to 14.7 pence in 2018 which reflects both the improvement in trading for the business and a reduction in finance costs in the year. The weighted average number of shares for 2018 was 579,425,585 and for 2017 was 530,738,162. The weighted average was lower in 2017 as the primary shares in the public listing were issued in November 2017.

CASH FLOW

Net cash from operating activities, which is calculated before capital expenditure but after payments for Other items, increased by £5.7 million from £93.4 million in 2017 to £99.1 million. This was largely due to the significant reduction in interest costs, including refinancing fees, of £25.7 million more than offsetting the working capital increase in the year of £14.2 million and the increase in tax paid of £2.8 million.

Net cash used in investing activities increased by £47.8 million in the year from £75.9 million in 2017 to £123.7 million in 2018. The increase is primarily due to a £29.0 million increase in payments for the Group's four key development projects, and an £8.5 million payment for the acquisition of Haydens Bakery in the year and a £3.2 million cash contribution paid to the new owners of Anglia Crown that was sold during the year.

Free cash flow[1] for the year, which is the key measure the Directors use to manage cash flow in the business, was £16.0 million lower than the previous year at £55.1 million. This was largely due to expenditure on core capital (excluding development projects) being £4.6 million higher than 2017 as a number of projects were re-phased from the latter half of 2017 and into 2018. Working capital remains tightly managed but there was a small outflow this year of £7.8 million as we increased our inventory for certain ingredients to obtain favourable pricing and our new international factories opened towards the end of the year. Interest payments were £9.4 million lower this year as we saw the full-year benefits from the refinancing in March 2017 and a temporary benefit from the primary proceeds received from last year's public listing.

CAPITAL, DEBT AND LEVERAGE

At 29 December 2018 the Group had committed debt facilities of £447.5 million comprising a revolving credit facility of £200 million maturing in June 2021 and term loans totalling £247.5 million, of which £210 million mature in June 2021 with the balance maturing in June 2024.

Whilst the Group has continued to generate good free cash flow in 2018, payments of £52.1 million have been made in the year in respect of the four key development projects identified at the time of the public listing. The finance for these projects was raised from the primary proceeds from the public listing in November 2017 and the final payments for these projects are due to be made by Q3 2019. In addition, the Group has funded the acquisition of Haydens Bakery in the year at a cost of £10.9 million. These payments, combined with the interim dividend paid of £11.6 million and payments for Other items, have resulted in an increase of £38.8 million in operational net debt to £309.3 million. Leverage (the ratio of operational net debt to adjusted EBITDA) was 2.0 times at December 2018 and, as expected, is an increase from the 1.8 times at the end of 2017, largely due to the expenditure on the development projects. It remains 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[1]

The increase in invested capital in 2018 has resulted in a decrease in the Group's Return on Invested Capital[1] ("ROIC") from 12.2% in 2017 to 11.6% in 2018. Over the medium term, the Group plans to continue to spend circa 3.5% per annum of revenues on capital investment and would also expect the key development projects to deliver improvements in returns.

PENSIONS

Under the IAS 19 valuation principles that are required to be used for accounting purposes, the Group recognised a deficit of £0.5 million for the UK defined benefit scheme as at 29 December 2018 (2017: surplus of £5.2 million).

The movement from a surplus in the prior year to a small deficit is largely due to a 1.1% increase in liabilities, amounting to £2.6 million, to meet the equalisation requirements for GMP following the Lloyds Banking Group ruling in October 2018.

The Group and the Trustee agreed in April 2017 the triennial valuation of the UK defined benefit pension scheme as at 30 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 £3.5 million payable for the year ending 31 March 2019.

DIVIDEND

The Group paid an interim dividend of 2 pence per Ordinary share on 5 October 2018 and will propose a final dividend of 4 pence per Ordinary share at the Company's AGM on 23 May 2019. This will result in a total dividend for financial year 2018 of 6 pence per Ordinary share. The Board expects to maintain a progressive dividend policy in the medium term.

PETER GATES
Chief Financial Officer

5 April 2019

1. 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 40 of the Notes to the Consolidated Financial Statements.

FRESH ENGAGEMENT
THROUGH FRESH APPROACHES

Matt White, Director of Fundraising and Communications, Action Against Hunger
We're very excited to be partnering with Bakkavor and grateful for the Group's support. Money raised will go towards our vital work helping children who are suffering with severe acute malnutrition, a preventable and treatable condition that still kills two million children every year. Bakkavor's commitment is set to make a huge difference.

WE SHARE SURPLUS FOOD WITH CHARITIES AND ORGANISATIONS WHO REDISTRIBUTE IT TO THOSE IN MOST NEED. WE ARE ALSO WORKING WITH THE CHARITIES ACTION AGAINST HUNGER AND FARESHARE TO TACKLE THE GLOBAL ISSUE OF HUNGER.

MAKING A DIFFERENCE IN A SUSTAINABLE WAY

Bakkavor is committed to being a socially responsible business at every level; actively engaging with all stakeholders to ensure that we make a difference every day.

We take seriously the significant trust placed in us by our stakeholders and remain focused on continuing to shape and develop our Corporate Responsibility ("CR") strategy and framework in the years ahead.

OUR FRAMEWORK

Our CR framework covers the four key areas of Food Safety and Integrity, Environment, Workplace and Community. In 2018, we extended this framework across our international operations and put in place a process to measure carbon emissions and waste data across the Group's businesses.

We undertook a light materiality assessment at the end of 2018 to better understand our key sustainability priorities, not just in the UK but also across our international businesses. The assessment, which was conducted by an external agency, will be used during 2019 to set a Group CR strategy and review our reporting framework and priorities.

GOVERNANCE OF CORPORATE RESPONSIBILITY

CR is monitored by the Senior Management team and reported to the Board. The Board reviews the progress of 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.

We also have a Bakkavor Code of Conduct in place to support good governance of behaviours. It reflects our core values and underpins our culture by defining how we do business and how our employees should act on a day-to-day basis. The Code includes policies and procedures such as anti-bribery and business ethics, IT usage policy and statements supporting our commitment to acting professionally, fairly and with integrity.

NON-FINANCIAL INFORMATION STATEMENT

The table below sets out where stakeholders can find information in our strategic report that relates to non-financial matters as required under the Non-Financial Reporting Directive requirements.

Reporting requirement	Some of our relevant policies	Where to read in this report about our impact, including the principal risks relating to these matters	Page
Environmental matters	Group Environmental policy[1]	Sustainability approach Waste and Food Waste Carbon footprint Risk – Sustainability	38 38 39 29
Employees	Code of Conduct[1] Group Health and safety policy[1]	Diversity Health and safety Risk – Health and safety	40 42-43 28
Human rights	Code of Conduct[1] Modern Slavery Policy[2]	Governance Supply chain integrity	35, 57 36
Social matters	Code of Conduct[1]	Community engagement	46
Anti-bribery and corruption	Anti-bribery and corruption policy[1]	Governance	35, 68
Business model		Our business model	8-10
Non-financial KPIs		Key Performance Indicators	24

1. Available to all employees through the Bakkavor Intranet. Not published externally.
2. Available both on our website www.bakkavor.com and available to employees through the intranet.

FOOD SAFETY AND INTEGRITY

Our passion for food is core to our business; a passion which is only realisable if customers and consumers continue to trust the highest standards of quality and integrity of our food. We value the importance of being a trusted partner to our customers, their consumers, our suppliers and the communities in which we operate.

FOOD SAFETY EXPERTISE

At Bakkavor we are focused on making food that is great-tasting for consumers whilst meeting 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 we operate.

In the UK, as well as having food safety experts at each of our sites, we have a dedicated central technical team overseeing operations. The 63 people in this team are experts in microbiology, chemistry, produce, pesticides, process innovation and all aspects of designing and maintaining chilled food factories to the highest standards.

RESPONSIBLE SOURCING

Risk assessment – Own operations and supply chain

The Group uses Hazard Analysis and Critical Control Points ("HACCP") principles to identify any potential food safety risks and ensure they are effectively controlled when developing and manufacturing its products. These procedures form the backbone of Bakkavor's Quality Management Systems and Standards. In total, Bakkavor employs more than 500 food safety professionals.

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

In the UK, the Group conducts over 1,500 in-house microbiology and chemistry tests every day. It is this detailed approach that ensures that 21 of the Group's UK manufacturing sites hold certification at 'A' grade against the British Retail Consortium Global Standard – Food Safety.

In the US, we ensure that our facilities adhere to the highest food safety standards set by institutions including US Food Safety and USDA. In 2018, our two new US sites both received the approvals required by customers and regulators. During the year, the US business experienced a product recall due to a contamination in raw materials from the supplier; risk controls were tested and the business responded well with minimal operational impact.

In China, we passed the American Institute of Bakery Audit, a very high food safety standard in the bakery industry. Our site in Hong Kong gained accreditation in HACCP, and received an ISO22000, a Food Safety Management System Certification by the International Organization for Standardization.

NUTRITION

As a leading food producer, we recognise the significant role 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 collaborated with our customers in responding to healthy eating trends by reviewing salt, sugar and saturated fat levels in our food. We introduced new healthy food options including several well-publicised and successful vegan ranges and products.

RESPONSIBLE SOURCING

We source over 5,000 ingredients from around the world and 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 help ensure year-round supply.

To maintain the security and quality of our supply chain, we have a Responsible Sourcing Steering Group comprising senior members from our procurement, technical and HR teams. Our dedicated Responsible Sourcing Manager co-ordinates the work between these functions and our customers in the UK.

The team developed our responsible sourcing model, taking a risk-assessed approach to our operations and supply chain. The model focuses on four key areas:

- Threats and vulnerability – we assess our suppliers to ensure we have a robust supplier base, where suppliers are like-minded, want to grow with us and can invest in growth. They must deliver outstanding customer service, at the right quality, with the right capabilities and demonstrate that material availability isn't a risk.
- Human rights and people – we ensure our suppliers follow the same principles as Bakkavor. These include customer requirements and compliance with all legal requirements (e.g. Human Rights Act, Modern Slavery Act, the ETI base code, UN Guiding Principles etc).
- Raw material integrity – we work with our suppliers to prevent food fraud (i.e. substitution and adulteration). This ensures the right materials come into our business from trusted suppliers. To support this, in 2018 we increased our horizon scanning intelligence to gather information concerned with emerging trends, issues and uncertainties that the future may bring. We assess their potential impact on our business and use the information to target our approach on testing materials or to conduct routine trace exercises on our supply base.
- Environmental sustainability – we are committed to reducing our impact on the environment to assure the long-term sustainability and resilience of our supply chain. We are assessing environmental sustainability risks in our supply chain, identifying the 'hotspots' and working collaboratively with suppliers on action plans.

In March, we held our first supplier conference to set out Bakkavor's approach to responsible sourcing in the UK. Over 420 suppliers attended the event, with presentations from the Chief Executive Officer, Chief Operating Officer UK, and Bakkavor's Responsible Sourcing Steering Group.

FOOD SAFETY AND INTEGRITY PRIORITIES FOR 2019

- Ensure our risk assessment processes and analytical methods that support raw material and product integrity continue to be robust, challenging, effective and efficient in a rapidly evolving area.
- Continue to develop our internal laboratory expertise, increasing our in-house allergen testing capability to provide a high calibre, expert service in this important area.
- Gain independent assessment for the operation of our governance processes.
- Continue to review and enhance our Learning and Development programme in food safety to ensure we develop the best food safety experts for our business.
- Deliver on the action plans set by the Responsible Sourcing Steering Group.
- Deliver on the action plans for human rights and modern slavery and show that progress has been made.

Human rights and modern slavery

Human rights underpin our Responsible Sourcing Model, which is at the heart of Bakkavor's core values. We are committed to the highest standards of ethics and integrity and do not tolerate slavery and forced or trafficked labour within our business or anywhere in our supply chain.

During 2018, we continued to develop our approach to tackling issues of modern slavery, recognising the need to build capability at all levels in our business and in our supply chain. We continued to train our HR and operational employees to recognise the indicators of modern slavery and raise concerns to address potential issues.

In line with the Modern Slavery Act 2015, we produced our second Modern Slavery Statement in 2018. This is available on our website and details developments during 2017, including an outline of our commitment structure in line with the requirements of the Act.

We implemented the 'Stronger Together Progress Monitoring Tool' for the Group. This was followed by the 'Stronger Together Organisational Performance Assessment', a two-day assessment by an external social compliance auditor, which provided us with detailed gap analysis. From this we have been able to further build and reinforce robust action plans for our own businesses and supply chain.

ENVIRONMENT

Bakkavor undertakes practical actions 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 potential direct and indirect impacts on the environment. We encourage environmental efficiency through a Group-wide focus on the four main areas of waste, water, energy efficiency and packaging. We are continuing to improve our environmental performance through sustainability initiatives and have made particularly good progress in the UK this year in reducing food waste.

We are in the process of launching an 'Environmental Governance and KPI Tracker' for the UK business. This system will enable our operational and Group teams to identify best practice and opportunities to deliver value for the environment and for the business.

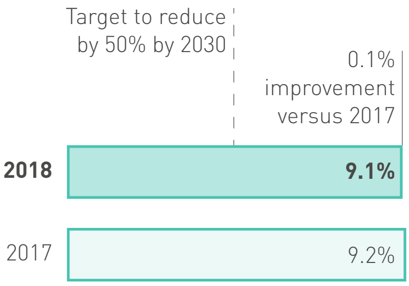
WASTE

In the UK, we have a long-standing track record of reducing waste by maximising recycling and making the best use of materials and resources.

Given the nature of our business, we continue to review our approach to food waste reduction and redistribution across all our operating sites.

The United Nations Sustainable Development Goal 12.3 sets an ambitious target "to halve food waste across the supply chain by 50% by 2030". In the UK, Bakkavor has committed to adopt the 12.3 target, measuring and publicly reporting its progress. The UK business has also been a leading member of an industry group working with the Waste and Resources Action Programme and the Institute of Grocery Distribution to develop the 'Food Loss and Waste Standard' ("FLWS"), a platform for measuring and reporting food waste and delivering improvements across the industry.

Food waste as a percentage of total UK food produced



In 2018, UK food waste was calculated in accordance with the FLWS at 9.1% of total food produced, representing a 0.1% improvement against the comparable year.

We are committed to making the best possible use of any surplus food. This may be through redistribution of surplus food and ingredients to our employees, to charities or for use in animal feed.

In the UK, Bakkavor provides significantly subsidised surplus food to Company Shop, the largest redistributor of surplus food to those in need in the UK. In 2018, approximately 1,350,000 meal equivalents were allocated to Company Shop.

Bakkavor also redistributes surplus food to employees at discounted prices via staff shops at a number of its UK sites. This is a very popular 'not-for-profit' initiative, with funds raised allocated to local community initiatives.

In addition to providing subsidised food, the UK business also donated meals to FareShare during the year. FareShare is a UK charity that distributes meals to community groups through a network. We also donated almost 86,000 meals in 2018 to Peterborough Soup Kitchen.

Finally, in the UK we also redirected around 30,400 tonnes of manufacturing waste such as unused bread and pastry doughs and vegetable and fruit trimmings to be used as animal feed.

In the US, approximately 100 pounds of food per week is donated and distributed to various local organisations including a women's shelter, a half-way house, Open Arms Ministry, the Community Kitchen and Meals on Wheels.

GREENHOUSE GAS EMISSION STATEMENT

Bakkavor has this year extended its data capture process to record its carbon emissions in the US and China, having previously only captured data in the UK.

Greenhouse gas ("GHG") emissions for the year to December 2018 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 globally. This covers all 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.

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).

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.

The table below shows GHG emissions for Bakkavor Foods Limited.

Emissions in the UK decreased between 2017 and 2018 by 30% as we moved to a renewable electricity supply contract across our sites to support our programme to reduce greenhouse gases.

As part of our strategy in the UK to move towards a lower carbon footprint infrastructure and to drive energy efficiency, and in compliance with climate change regulations (F Gas Regulations), we have invested in a natural gas (ammonia) refrigeration plant at our Newark desserts site. This plant is significantly more efficient and will have a positive impact on total energy usage. It enables further integration of services (heat recovery and the full conversion of the Newark site to ammonia) and expansion to support growth. The ammonia plants and rollout plan represent the Group's significant investment in the future sustainability of operations.

The table below also shows GHG emissions for the Group as a whole. This is the first year that Group emissions have been reported so no comparative data is available.

The 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.

UK GREENHOUSE GAS EMISSIONS

Bakkavor Foods Limited (UK)	**2018 emissions tCO_2e**	2017 emissions tCO_2e
Scope 1: Emissions from combustion of fuel and operation of facilities	110,241	112,392
Scope 2: Emissions from purchased electricity and cooling	66,492	80,606
Total gross emissions	**176,733**	**192,998**
Green tariff	56,900	22,747
Total annual net emissions	**119,833**	**170,251**
Intensity Ratio (gross tCO_2e/£m turnover)	**106.9**	**117.9**

GLOBAL GREENHOUSE GAS EMISSIONS

Bakkavor Group	**2018 emissions tCO_2e**
Scope 1: Emissions from combustion of fuel and operation of facilities	
UK	110,241
US	5,957
China	7,017
Total Scope 1 emissions	**123,215**
Scope 2: Emissions from purchased electricity and cooling	
UK	66,492
US	7,050
China	36,031
Total Scope 2 emissions	**109,573**
Total gross emissions	**232,788**
Green tariff	56,900
Total annual net emissions	**175,888**
Intensity Ratio (gross tCO_2e/£m turnover)	**125.5**

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.

We will do all that we can to ensure that everyone has an equal chance to apply and be selected for jobs and an equal chance to be trained and promoted when they work for the Group.

This year, Bakkavor started a 'Diverse Roots into Employment' project which involves exploring different ways to recruit employees while supporting communities.

Our Bakkavor Pizza site in Holbeach worked with Centre-Point Outreach, a local charity which supports homeless and disadvantaged people in Boston, Lincolnshire. With help from the Group's Central Resourcing team, Bakkavor Pizza assisted 17 people into employment and permanent accommodation.

We have also started working in partnership with an Open Prison in Lincolnshire and will be offering open residents rehabilitation placements within two of our Lincolnshire sites. The placements can last from six to 18 months and give the residents an opportunity to adapt to life back in a community in preparation for their release and possible future employment with Bakkavor.

DEVELOPING A SUSTAINABLE TALENT PIPELINE

At Bakkavor, people are at the heart of our business. It is important that we remain focused on being the local Employer of Choice for both existing and new talent.

In an increasingly competitive market, one of our priorities for 2018 was to further develop our centralised resourcing model to attract talent and support business growth. We have expanded this model to include salaried recruitment and are piloting this across several UK sites with the aim of rolling this out in April 2019.

GRADUATE & APPRENTICE PROGRAMMES

Over 250 people in the UK are currently part of the Bakkavor Apprenticeship Programme, which covers a broad range of training specialisms including Engineering, Manufacturing and Product Development. We are passionate about our Apprenticeship Programme, continuing to add more areas of specialism and increasing the number of places available every year. In 2018, we welcomed 26 new apprentices to the Group who are contributing to key business activities and projects whilst studying towards a relevant, nationally recognised qualification. We are very proud that one of our Engineering apprentices jointly won Young Apprentice of the Year at the 'Appetite for Engineering' industry event in October 2018.

We are committed to the long-term role of apprenticeships within our business and work closely with the National Skills Academy, developing new standards, reviewing existing standards and providing support to training providers through Industry Skills Partnership groups.

Our Graduate Programme has provided over 300 graduates with the opportunity to learn and develop in a wide range of roles across the Group. The programme continues to provide a vital talent pipeline for our future leaders. In 2018, 21 UK graduates joined the business across the seven schemes we have available.

This year, we welcomed four International Graduates to support our growth in Asia. The programme has four schemes – Commercial, Technical, Development and Marketing and involves a one-year placement in the UK, before graduates relocate to China or Hong Kong to complete the remaining two years of the International Programme.

TRAINING & DEVELOPMENT

Our company values are embedded in all the training that is completed at Bakkavor, from a day one induction through to our management programmes and functional training.

We are committed to the training and development of all our employees to ensure they know how to do their job safely and to the best of their ability. We have an in-house e-learning Bakkavor Training System ("BTS") which enables us to monitor compliance and plan and record training for factory site-based colleagues. In 2018, the training system was developed further so we will be able to extend the BTS to cover our agency workers. The Group has also enhanced the e-learning system to include

WORKPLACE RECRUITMENT, RETENTION AND DEVELOPMENT PRIORITIES FOR 2019

- To increase awareness of apprenticeship and early careers programmes in the UK and internationally
- To continue to develop internal talent and succession plans to support business and international mobility
- To further develop our centralised resourcing model to include salaried as well as weekly paid colleagues to support business growth, streamline process and drive down cost
- To work with line managers in developing their leadership capability and to support business change
- To support our colleagues around the impact of Brexit, whilst driving employee retention and engagement

a business tool to help with planning labour and analyse skill requirements.

Bakkavor has a long established relationship with the University of Lincoln. The University has supported us in developing English language workshops for colleagues for whom English is not their first language and these workshops have been successfully piloted this year. We are also recruiting our own English language trainers to deliver the training and support colleagues with coaching in the workplace.

We have continued to focus on developing our existing talent by introducing a structured approach to talent planning. We have recently redeveloped a succession plan which identifies both our present and future talent as well as the challenges we face in our talent pipeline. We have also undertaken a full review of job families and career pathways to ensure they are modern and fit for future talent development in Manufacturing, Process, Development and Commercial.

"We are delighted that Simran Padam, our Commercial Management Accountant at Bakkavor Pizza & Bread in Harrow, obtained joint-first position for the August 2018 CIMA Strategic Case Study Exam."

Simran started with Bakkavor on the Graduate Scheme in September 2015 after achieving a 2:1 in Accounting and Finance from the University of Huddersfield. She spent her first year at Bakkavor Meals, London, as an Assistant Management Accountant then progressed to an Assistant Financial Accountant in her second year, based at Bakkavor Desserts, Newark, before moving to Harrow to complete her third year on the scheme.

The Group's approach to management and leadership training and development has been further developed this year with two new programmes being introduced. Our highly effective 'Recipes for Success' and 'Managing for Results' programmes are delivering results through managers completing improvement projects as part of their learning. The development of our senior leaders continued, focusing on individual coaching and an alumni event spearheaded by our CEO.

Specific functional training is provided to managers working in our offices. In 2018 we enhanced the training and development provided to our Commercial Managers and we now offer four programmes focusing on category management, commercial thinking, negotiation skills and joint business planning. Our managers in the development function have also benefited from targeted training in sensory analysis.

COMMUNITY ENGAGEMENT

In 2018, we continued to support the IGD Feeding Britain's Future Programme, with 10 fledgling school partnerships now in place and over 300 school students engaged. The programme, working in secondary schools, brings the industry together to inspire the next generation and equip them with skills for work. They bring to life the 'world of work', highlight the skills required to succeed in the workplace and showcase the variety of roles available in the food and grocery industry.

Partnerships are long-term and build bespoke relationships between our Bakkavor sites and secondary schools in our local communities. Partnership activities are varied and include factory site visits for different student groups such as food technology, engineering, business studies, marketing and design technology. Other activities include NPD project-based competitions and lessons in bringing the curriculum to life, interview skills and practice assessments.

EMPLOYEE ENGAGEMENT

Bakkavor has a proud history of asking employees for honest feedback on their experiences of working with us. Where possible, we use this feedback to make important changes to work practices, which in turn creates a workplace where people enjoy their jobs, feel that they are making a meaningful contribution and are recognised for outstanding work.

We measure our engagement levels through an Employee Engagement Survey conducted every year. This year, we conducted a full survey in the UK and rolled out the survey to our international businesses. The survey was undertaken between January and March, with an 87% response rate. In 73% of the questions asked, we had a higher engagement score than was reported the previous year.

Some of the key themes coming from our latest survey in the UK include employees reporting having the resources and information they need, a strong customer focus, a clear understanding of accountabilities and how their work contributes to company goals. In our US sites, the strengths from the survey included employee benefits, high-quality products and services as well as employees feeling they are provided with the opportunities to do challenging and interesting work. Bakkavor Asia also had promising results where employees felt there is a clear direction, quality customer focus and that they have the correct resources to do their job.

The results of our Engagement Surveys enable us to define clear plans for improvement. For example, when the difference in facilities from one site to another was identified, a review across sites was carried out and a common Bakkavor standard subsequently developed. This has resulted in the recent refurbishment of canteen facilities at our Bakkavor Bread site in Aston, Cheshire, and investment in various other factory initiatives targeted at improving workplace engagement.

BREXIT EMPLOYEE SUPPORT

Around half of our UK workforce are EU nationals. Whilst the implications of Brexit are still unknown, we are committed to keeping our employees engaged and supporting them through any Brexit developments. Following the referendum result to leave the EU, we devised four work streams:

- Helping EU nationals stay in the UK – including workshops explaining their rights, the settlement process and its requirements and English language support.
- Employee experience – updating our facilities, our induction programme and running inclusion workshops.
- Manpower agency development – developing a strategic partnership approach with agencies and creating a Bakkavor Passport.
- Employee terms and conditions – looking at terms and conditions across sites.

EMPLOYEE FORUMS

Bakkavor is committed to providing open channels of communication to promote effective employee engagement across the Group. Each of our sites has a Site Employee Forum ("SEF"), made up of representatives and members of the site management team. SEF meetings are held regularly throughout the year where matters of common concern are discussed and where learnings, best practice and ideas are shared.

Throughout 2018, events were organised to support our SEF representatives across our UK businesses. Business Employee Forums ("BEFs") were held for all of our UK operational sectors and Group Employee Forum ("GEF") regional 'huddles' also took place in London, Spalding and Crewe. These proved excellent opportunities for representatives to network with their colleagues, discuss positive initiatives and challenges, and set objectives with management for 2019.

Our annual GEF Conference took place in May 2018. Each SEF is represented at the Conference and over the two-day event there were presentations (including business updates from our CEO and CFO) and interactive sessions to support our SEFs. As part of this year's conference, a 'SEF Effectiveness Model' was developed for our representatives to use as a self-audit tool so to benchmark themselves against a clear set of criteria and devise action plans to progress their roles.

RECOGNITION THROUGH AWARDS

As a Group, we hold two main awards ceremonies annually – our Group Responsibility Awards and the Group Innovation Awards – to recognise the great work our people are doing every day. Both ceremonies reflect the importance of our core values and how they are embedded across the Group. Our businesses also celebrate and recognise hard work and commitment at their sites through Values and Long Service Awards, with a particular highlight being the recognition of one of the Group's longest serving employees who retired in 2018 after working 48 years at our Bakkavor Spalding site in Lincolnshire.

EMPLOYEE HEALTH AND SAFETY

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

The health and safety culture is based on strong governance processes and driven by the Group Board. Bakkavor has health and safety teams in place that define standards and monitor compliance with its 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 requirements.

Systems include comprehensive audits and unannounced 'safe site' inspections carried out by qualified experts, performance monitoring and reporting and a well-established process for capturing and sharing good practice and learnings. In 2018, we recruited two more people onto our central Health and Safety team providing further support in governance auditing and enabling additional expert support to our businesses.

To foster and embed a positive approach to workplace health and safety across the Group, we have a H&S Forum and our central H&S team provide regular updates and guidance. The team attends our Engineering discussion group and our Manufacturing Forum and communicates key risks and shares best practice initiatives at the Group's annual GEF Conference. In 2018, the team also visited our China sites to support development of H&S governance, reporting processes and discuss common key H&S risks.

At the annual Group Responsibility Awards there are two H&S award categories – H&S Culture and H&S Innovation. In 2018, the Health and Safety Culture Award was presented to Bakkavor Desserts Highbridge, who were recognised for having made a step change in safety performance by engaging employees across the business and developing a safety culture. The Health and Safety Innovation Award was presented to Bourne Prepared Produce, who developed a loading cradle to reduce the risk of injury through heavy lifting. This innovation has now been shared at our H&S Forum so that it can be rolled out in other businesses across the Group.

In 2018, our commitment to ensuring a safe working environment for everyone on our sites was externally recognised with four awards from the Royal Society for the Prevention of Accidents ("RoSPA").

As part of our drive towards an accident prevention culture, we continued to focus on reducing risk associated with workplace transport, raising awareness of machinery safety and the risks associated with working at height and electrical safety. For example, we held workshops on the appropriate selection and use of equipment for working at height to minimise risks of falling, and a UK H&S induction pack is being developed by the central team which will be rolled out across the Group in 2019.

To help prevent machinery accidents in 2018, we continued the rollout of the machinery safety workshops, with a further 727 employees being trained in 2018. In 2018, the total number of accidents in the UK business was 1,712, an 8% improvement on the prior year. The total number of accidents in the UK resulting in more than seven days of lost time was 68 compared with 66 in the prior year.

The number of major accidents recorded in the UK business was 16 in 2018, compared with seven in 2017. An analysis of these major accidents highlighted an increase in the incidents involving pedestrians and mechanical handling equipment, manual handling and falls from the height of low level steps. These topics are a key focus of our Group governance processes and continue to be priorities for action in 2019.

Whilst we will always work towards having no major accidents in our business, we are reassured that the 2018 performance represents a 53% outperformance against the HSE industry average. This is calculated per 100,000 employees and based on the information in the table below.

UK WORKPLACE ACCIDENTS

	2018	2017
Major* accidents per 100k employees	**94**	40
>7 days lost-time accidents per 100k employees	**400**	380
Total accidents per 100k employees	**10,068**	10,745

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

WORKPLACE HEALTH AND SAFETY PRIORITIES FOR 2019

- Maintaining our focus on reducing key business risks, specifically through robust delivery of the Group governance processes, business unit internal auditing and sharing good practice and learnings across the Group.
- Ensuring Health and Safety Management is effectively designed into capital/change projects across the Group.
- Further developing health and safety training and risk reduction workshops for people who are more at risk due to the nature of their roles and where they perform them, e.g. teams working near vehicles, with machinery and working at height/using steps.

EMPLOYEE DATA

The Group employed 19,842 employees in total. Approximately 98% of employees are considered permanent.

BY LOCATION

	2018	2017
United Kingdom	**17,004**	17,348
US	**635**	595
China	**2,181**	1,628
Continental Europe	**22**	22
Total number of employees	**19,842**	19,593

BY FUNCTION

	2018	2017
Production	**16,706**	16,653
Management and administration	**2,183**	1,992
Sales and distribution	**953**	948
Total number of employees	**19,842**	19,593

In 2018, the Group reported employee turnover in the UK of 22.1%, compared to 22.7% in 2017, representing a 0.6% improvement.

Turnover includes voluntary and involuntary leavers and excludes employees on fixed term contracts and those affected by redundancy. In 2018, the average length of service of employees in production was seven years, while that of employees in management and administration was eight years.

BY GENDER

	2018 UK	2018 International	2017 UK	2017 International
Female	**7,055**	**1,643**	7,116	1,273
Male	**9,949**	**1,195**	10,232	972
Total number of employees	**17,004**	**2,838**	17,348	2,245

SENIOR MANAGEMENT BY GENDER

	2018 Board and Management Board	2017 Board and Management Board
Female	**3**	2
Male	**10**	10
Total	**13**	12

Bakkavor is committed to advancing and raising the profile of gender equality across the Group. The Bakkavor UK Gender Pay Report 2018 is available on the Group website as part of our legal requirement as a company with more than 250 employees. A summary of the report is shown on the following page.

UK GENDER PAY REPORT 2018 SUMMARY

Our overall mean gender pay gap for 2018 is 9.9%, which is an improvement of 0.9% from the previous year. This figure is lower than both the published 2017 national average and the UK manufacturing sector average.

However, we know we need to do more to help reduce the gap and to ensure we are at the forefront of positive change.

In common with most employers with a gender pay gap, whilst the data is nuanced, the overall reason for the gap is an under-representation of women at senior levels and a higher number of women at more junior levels. During the last 12 months since our 2017 Gender Pay Report was published we have:

- Established a set of metrics to monitor our diversity;
- Reviewed our approach to flexible working and piloted several initiatives;
- Designed and delivered a new female mentoring programme with junior female managers being mentored by leaders to prepare them for more senior roles;
- Developed training in unconscious bias for all leaders involved in early career selection (Graduate and Apprenticeship programmes) in addition to focusing on gender diversity in those programmes;
- Reviewed our reward arrangements to ensure they are free from gender bias; and
- Reviewed and revised several of our job families and created career pathways to ensure that career opportunities are visible.

Whilst we are pleased that a number of actions are in place and our gender pay gap has narrowed, we also recognise that as well as putting these initiatives in place, improving our gender pay position also requires longer term change. Our focus in 2019 and future years will be on the following:

- Continuing to monitor and review our diversity metrics and using our data to ensure equity in our reward arrangements at all levels;
- Working to remove any barriers to career progression,
- Looking at working patterns or geographical locations;
- Further roll-out of our female mentoring programme across all functions;
- Continuing to drive our inclusion training programme at site level which focuses on unconscious bias and subjectivity;
- Continuing our progress with flexible working to support and promote female retention and career progression; and
- Continuing to focus on gender diversity in our entry level programmes.

GENDER PAY DATA

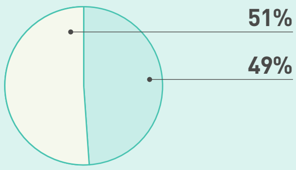
The information below is a summary of the data available in our online report. This comprises the mean and median gender pay gap; the mean and median gender bonus gap; the proportion of males and females receiving a bonus payment; and the proportion of males and females in each pay quartile.

The results focus on our total UK business, which is the best indicator of our overall gender pay position.

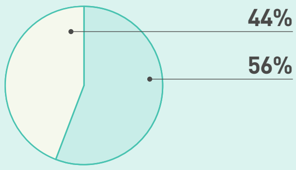
Mean pay gap	9.9%
Median pay gap	8.4%

The quartile split confirms that we have more men in senior roles, which is the primary driver of our gender pay gap.

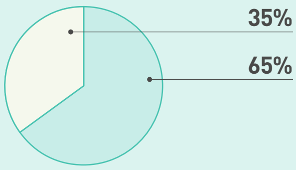
1ST QUARTILE (LOWEST PAID)



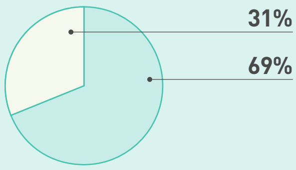
2ND QUARTILE



3RD QUARTILE



4TH QUARTILE (HIGHEST PAID)



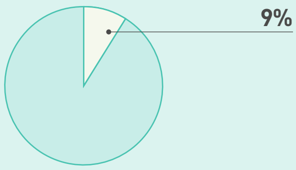
Women Men

GENDER BONUS DATA

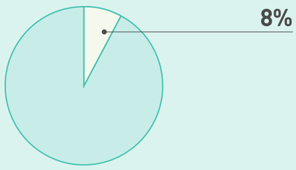
Mean bonus gap	60.7%
Median bonus gap	11.6%

The underlying gender bonus gap reflects a higher proportion of men in senior roles. The significant increase in our gender bonus gap in 2018 reflects the payment of accrued LTIP bonuses.

PROPORTION OF MEN RECEIVING A BONUS



PROPORTION OF WOMEN RECEIVING A BONUS



COMMUNITY

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

CORPORATE CHARITABLE SUPPORT

Bakkavor develops corporate charity relationships as an opportunity to foster positive workplace engagement and the chance to 'make a difference'.

Over the past four years our chosen charities have been The Prince's Trust and The Prince's Countryside Fund and we have valued the way we have been able to engage with both charities to raise funds for their causes.

In 2018, in support of the Prince's Trust, we undertook many initiatives raising over £16,000 for the charity through employee engagement as well as a financial contribution from the Group. Events included the 'Palace to Palace Cycle Challenge', the 'Future Steps Challenge' and our Group Marketing team undertook a 24 hour 10k marathon.

As part of the partnership arrangement, we have supported the Trust's XL Programme through hosting World of Work tours at our sites. We held our 17th World of Work Tour at our Bakkavor Pizza & Bread business in Crewe. These tours are aimed at giving disadvantaged students first-hand experience of working within the food industry.

The Prince's Countryside Fund has been the chosen charity for our graduates. Both our first and second year graduates organised various fundraising activities including a Champagne and Canapes Charity Auction Evening and a Canoeing Competition. As a result, more than £5,000 was raised and donated to the charity, in addition to the Group's contribution.

The partnership agreements with these charities came to an end in 2018. We therefore undertook a review of charities to support at a corporate level, seeking a global charity that focuses on tackling social issues which all our sites could support and a UK-based charity, given that 89% of our revenue is generated in the UK. From January 2019, we have agreed three-year partnerships with Action Against Hunger and FareShare. Action Against Hunger works across nearly 50 countries to lead the global fight against hunger and malnutrition. FareShare saves good food destined for waste and sends it to charities and community groups who transform it into nutritious meals for vulnerable people.

LOCAL CHARITY SUPPORT

We encourage our sites to support charities which make a real difference within their local communities and that matter most to our employees. SEF representatives are heavily involved in organising activities to fundraise or volunteer with community sustainability projects.

One of the biggest local site fundraisers takes place annually at the Spalding Fun Weekend and Party in the Park sponsored by Bakkavor for employees, their families and members of the public. In 2018, the success of the event resulted in £25,000 being donated to two local charities in the Lincolnshire region – WWII Memorial Fund and Boston's Salvation Army. We also donated monies to other charities and local groups that attended the event.

At our annual Group Responsibility Awards we recognise all the hard work and commitment from our sites to engage and support their communities by presenting a Good Neighbour Award to the business which has made the most impact. In 2018, the Award was presented to Bakkavor Pizza Harrow site who demonstrated through their 'Harrow Cooking' initiative local engagement with the Council, a community group, school children, members of the public and local businesses. They organised events such as pizza cooking lessons, an arts and food Pizza Party, and handed out over 400 pizza slices to residents and commuters at their local train station.

CHAIRMAN'S LETTER ON CORPORATE GOVERNANCE

DEAR SHAREHOLDER

I am delighted to present to you our second Annual Report and Accounts since we listed on the London Stock Exchange in November 2017.

In this section, which forms part of the Directors' Report, we provide details of how the Company has applied the principles of, and complied with, the UK Corporate Governance Code 2016 (the "Governance Code") during the year.

Strengthening Bakkavor's corporate governance framework was a key focus in 2018, following our Initial Public Offering ("IPO") in November 2017.

Good corporate governance makes a positive contribution to the growth and long-term success of any business. Providing appropriate support, focused oversight and constructive challenge are critical elements of a well-functioning board.

Alongside this is the important role of the Board in establishing and promoting Bakkavor's values, by creating the necessary internal culture to enable us to meet the requirements of our customers, employees, shareholders and wider stakeholders, and deliver long-term sustainable growth.

BOARD CHANGES

There have been a number of changes to the Board during the year. I am delighted to welcome Jane Lodge, who joined the Board as an Independent Non-executive Director in April 2018 and has assumed the role of Chair of the Audit and Risk Committee. Jane's extensive experience of the food industry as an Audit Partner and a Non-executive Director will be of significant benefit to the Board and equips her well to guide the Audit and Risk Committee in the years ahead.

In July 2018, Bob Berlin informed us of his decision to stand down from the Board. I would like to thank Bob for his contribution as a Board member and for his support for Bakkavor through its journey to becoming a public listed company. He was replaced as the representative of BP-PE5 L.L.C (the Baupost Group) on the Board by Patrick Cook, who joined as a Non-executive Director. I welcome Patrick, who is a Principal at the Baupost Group and has significant investment experience across the food sector.

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. Bakkavor is now fully compliant in this respect.

BOARD EVALUATION

One of my responsibilities is to ensure that the Board is performing effectively, and we carry out an annual review of this, facilitated internally, and an external review every three years. The review in 2018 was conducted internally, with a positive outcome. There were some constructive suggestions and these will be implemented in 2019. You can read more about the evaluation process on page 60. I am satisfied that our governance structures remain effective and support the business.

GOVERNANCE AND RISK

During the year the Board was kept up to date on the developments and changes to the corporate governance landscape and the Governance Code. In July 2018, the Financial Reporting Council ("FRC") published its new Governance Code which will apply to financial periods commencing on or after 1 January 2019. For Bakkavor, this will therefore not formally apply until our financial year ending December 2020, but this will be an area of focus for the Board and its Committees over the next year and we will endeavour to meet the requirements during 2019.

As a Company, we have a long-standing commitment to high standards of corporate responsibility, which includes considering the interests of a broad stakeholder group in making business decisions. The Board remains focused on all Bakkavor's stakeholders, including its employees, customers, shareholders and the communities it is part of. You can read about our stakeholder engagement on page 10 and also in the CR section.

We continue to develop and embed our risk function, and appointed a Head of Risk during the year, who is responsible for making risk consideration an important part of daily decision-making, and improving the identification, mitigation and reporting of risk to the business and the Board.

LOOKING AHEAD

We are making good progress to develop our governance processes. They provide an appropriate platform from which to manage the business. I am confident this will help to improve performance and enable us to stay aligned with best practice over the coming years.

I would like to thank the Senior Management team and the many colleagues who have supported the Board in this work.

SIMON BURKE
Chairman

5 April 2019

THIS REPORT'S KEY FEATURES

Over the next few pages we look at the Board: its role, performance and oversight. We provide detail on Board activities and discussions during the year (pages 56 to 58), the actions arising from these and the progress made against them. We also provide insight on Director independence, effectiveness and our Board evaluation.

In line with last year, we have used the key themes of the Governance Code to articulate the Board's activities during the year:

LEADERSHIP

The Board rigorously challenges strategy, performance, responsibility and accountability to ensure that every decision we make is of the highest quality. See page 56.

EFFECTIVENESS

The Board continuously evaluates the balance of skills, experience, knowledge and independence of the Directors. See pages 59 and 60.

ACCOUNTABILITY

All Board decisions are taken within the context of the risks involved. Effective risk management is central to achieving our strategic objectives. See page 61.

REMUNERATION

Having a formal and transparent procedure for developing policy on remuneration for Executive Directors is crucial. Bakkavor's Remuneration Policy aims to attract, retain and motivate by linking reward to performance. See pages 72 to 82.

Governance Code Provision B.1.2 – at least half the Board, excluding the Chairman, should comprise Non-executive Directors determined by the Board to be independent.

The Group achieved full compliance with this provision following the appointment of Jane Lodge, an Independent Non-executive Director, on 3 April 2018.

Governance Code Provision 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 to be independent on appointment as Chairman.

The Group achieved full compliance with this provision following the appointment of Jane Lodge, an Independent Non-executive Director, who assumed the role of Chair of the Audit and Risk Committee on 3 April 2018. At the same time, the Company Chairman, Simon Burke, stepped down from the Audit and Risk Committee.

Since 3 April 2018, and to the date of this report, the Company has complied in full with the provisions of the UK Corporate Governance Code published in April 2016. The Code is publicly available on the website of the Financial Reporting Council at www.frc.org.uk.

GOVERNANCE SUMMARY

Our compliance with key areas of the Governance Code is summarised as follows:

- **Independence**: Over half of our Board comprises Independent Non-executive Directors and the composition of all Board Committees complies with the Code.
- **Senior Independent Director**: Our Senior Independent Director is Denis Hennequin.
- **Accountability and election**: There is clear separation of duties between the Chairman and Chief Executive Officer roles and all the Directors are to stand for annual re-election.
- **Evaluation**: An internally facilitated performance evaluation of the Board and its Committees was undertaken during the year.
- **Experience**: The Audit and Risk Committee Chair met the specific requirements with regard to recent and relevant financial experience throughout 2018.
- **Auditor tenure**: Deloitte LLP ("Deloitte") is our current External Auditor. Bakkavor has not run a competitive audit tender process in the last 10 years and was required to carry one out after becoming a Public Interest Entity as defined under the Companies Act 2006. Following a competitive audit tender process, PricewaterhouseCoopers LLP ("PwC") will be appointed as External Auditor for the 2019 financial year.
- **Non-audit services policy**: Details on the non-audit services policy are provided within this report.
- **Internal Audit**: Details of the Internal Audit function are provided within this report.
- **Performance-related pay**: Our reward framework is simple, transparent and designed to support and drive our business strategy.

FRESH DEDICATION

TO GLOBAL FRESH AMBITIONS

Donna-Maria Lee, Group HR Director
Since joining Bakkavor this year, I've had the fantastic opportunity to visit many of our sites and importantly to meet many of our people. Their passion for what they do and their commitment to our values is inspiring. I want to harness this enthusiasm to develop a culture that is forward-looking, that positively embraces change, and where innovation is the work of everybody, all of the time.

WE ARE PROUD THAT WE HAVE A DIVERSE WORKFORCE ACROSS OUR GLOBAL BUSINESS. THEY ARE THE SPECIAL INGREDIENTS THAT MAKE US A SUCCESS.

Board Committees:

NC
Nomination Committee
Report on page 63

AC
Audit and Risk Committee
Report on page 65

RC
Remuneration Committee
Report on page 70

PETER GATES

Chief Financial Officer

Appointment: Peter joined Bakkavor in 2010 as Chief Financial Officer and was appointed to the Group Board in 2017.

Skills and experience: 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.

External appointments: Peter currently has no external appointments.

TODD KRASNOW

Independent Non-executive Director

NC RC

Appointment: Todd has served as a Non-executive Director of Bakkavor since January 2016.

Skills and experience: Todd holds a Bachelor's degree from Cornell University and an MBA from Harvard Business School and has been a senior executive at a number of multi-national companies, with extensive experience in the retail and consumer services sectors.

External appointments: 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.

AGUST GUDMUNDSSON

Chief Executive Officer

Appointment: 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.

Skills and experience: Agust received his education from the College of Ármúli in Reykjavik, Iceland.

External appointments: Agust currently has no external appointments.

SIMON BURKE

Independent Non-executive Chairman

Appointment: Simon has served as a Non-executive Director of Bakkavor since February 2017 and was appointed as Chairman in October 2017.

Skills and experience: Simon 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.

External appointments: Simon is 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.

JANE LODGE

Independent
Non-executive Director

AC

Appointment: Jane has served as a Non-executive Director of Bakkavor since April 2018.

Skills and experience: Jane spent 25 years at Deloitte & Touche LLP, the audit, tax, consulting, enterprise risk and financial advisory services provider, progressing to a Senior Audit Partner working for major corporates. She served as the first female Partner to sit on the Deloitte UK Board, overseeing management strategy, acquisitions, performance against plan and admission of new partners. She was also the manufacturing and industry lead Partner, providing best practice and insights across the Deloitte businesses of tax, auditing, consulting, and corporate finance. Jane left Deloitte in 2011 to build a Non-executive portfolio.

External appointments: Jane is currently a Non-executive Director and Chair of the Audit Committees at Costain plc, DCC plc, Devro plc and Sirius Minerals Plc.

DENIS HENNEQUIN

Independent
Non-executive Director

AC NC RC

Appointment: Denis has served as a Non-executive Director of Bakkavor since February 2017.

Skills and experience: Denis 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.

External appointments: Denis is currently a Non-executive Director of Eurostar International Limited and a founding partner of investment fund French Food Capital since 2017.

SUE CLARK

Independent
Non-executive Director

AC NC RC

Appointment: Sue has served as a Non-executive Director of Bakkavor since October 2017.

Skills and experience: Sue holds a Master of Business Administration from Heriot Watt University and a Bachelor of Science from Manchester University. She was formerly Managing Director of SABMiller Europe from 2012 to 2016, where she returned the region to growth. 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.

External appointments: Sue is currently a Non-executive Director on the boards of Akzo Nobel, Tulchan Communications LLP, Imperial Brands plc and Britvic plc, where she also chairs the Remuneration Committee.

LYDUR GUDMUNDSSON

Non-Independent
Non-executive Director

NC

Appointment: Lydur is one of the founders of Bakkavor. He served as Chief Executive Officer from 1986 to 2006 and Non-executive Chairman from 2006 to 2017. He served as Chairman of Exista from 2006 to 2010.

Skills and experience: Lydur has unique expertise and insight into the Company's business as a founder of the Bakkavor Group. He received his education from the Commercial College of Iceland.

External appointments: Lydur currently has no external appointments.

PATRICK L. COOK

Non-Independent
Non-executive Director

Appointment: Patrick Cook has served as a Non-executive Director of the Bakkavor Group since July 2018.

Skills and experience: Patrick received his education from Vanderbilt University in Tennessee, United States and is a senior investment professional with significant direct investing experience in food companies.

External appointments: Patrick is currently a Principal of the Baupost Group.

AGUST GUDMUNDSSON

Chief Executive Officer

See Group Board profile on page 50

PETER GATES

Chief Financial Officer

See Group Board profile on page 50

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 UK Chief Operating Officer in 2014. Mike has overall responsibility for the UK operations.

BEN WALDRON

President, Bakkavor US

Ben joined Bakkavor in 2012 from Ernst & Young LLP. He initially joined as Group Financial Controller before taking on the role of Head of Strategic Development, working closely with the Management Board to advance the Group's strategic objectives for future growth. More recently, he led the acquisition of Haydens in the UK and the disposal of Vaco and Anglia Crown, as well as supporting the business in its IPO. Ben has overall responsibility for the US operations.

EINAR GUSTAFSSON

Managing Director, Bakkavor China

Einar joined Bakkavor in 2005. 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. Prior to joining, Einar was at Deloitte LLP.

DONNA-MARIA LEE

Group Human Resources Director

Donna-Maria Lee joined Bakkavor Group plc in September 2018. Donna-Maria worked for over 25 years within manufacturing, consumer and corporate functions. Prior to joining Bakkavor, she was Senior Vice President, Global HR, Burberry plc, accountable for the overall HR strategy, people and change agenda.

OUR GOVERNANCE FRAMEWORK

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

THE BOARD

CHAIRED BY SIMON BURKE

Accountable to shareholders for the long-term sustainable success of the Group. This is achieved through setting out the strategy, monitoring the strategic objectives and providing oversight of the implementation by the management team.

AUDIT AND RISK COMMITTEE

CHAIRED BY JANE LODGE

The Audit and Risk Committee's role is to assist the 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. The Audit and Risk Committee will normally meet not less than four times a year.

NOMINATION COMMITTEE

CHAIRED BY TODD KRASNOW

The Nomination Committee reviews the structure, size and composition of the 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.

REMUNERATION COMMITTEE

CHAIRED BY DENIS HENNEQUIN

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

DISCLOSURE COMMITTEE

CHAIRED BY SIMON BURKE

The Disclosure Committee comprises the Chairman, the Chief Executive Officer, the Chief Financial Officer and the General Counsel & Company Secretary. Other Directors, representatives from the Company's brokers, members of the Company's Senior Management and other external advisers may attend meetings in whole or in part, if invited. The Disclosure Committee oversees the Company's compliance with its disclosure obligations.

THE MANAGEMENT BOARD

CHAIRED BY AGUST GUDMUNDSSON

The Management Board implements the strategic objectives set by the Board and delegates to management the detailed planning and implementation of those objectives and policies, in accordance with appropriate risk parameters.

LEADERSHIP

THE ROLE AND RESPONSIBILITIES OF THE BOARD

The 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 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 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 Board also receives regular presentations from key Group heads of functions.

Decisions reserved for the 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 Board is available for review on the Company's website at www.bakkavor.com/investor-relations/governance.

THE MANAGEMENT BOARD

The Board is supported by the Management Board, which implements the strategic objectives set by the Board, and determines investment policies and delegates to Senior Management the detailed planning and implementation of those objectives and policies in accordance with appropriate risk parameters.

The Management Board monitors compliance with policies and achievement against objectives by holding Senior Management accountable for its activities through monthly and quarterly performance reporting and budget updates.

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 Board
- Executing actions in relation to key 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

Management Board members attend Board meetings as required to present and discuss matters relating to their business areas and functions.

COMMITTEES

The Board has established three Board Committees which comprise: the Audit and Risk Committee, the Nomination Committee and the Remuneration Committee, comprising only Non-executive Directors. Each Committee has agreed Terms of Reference which were approved by the Board and are available on our website: www.bakkavor.com/investor-relations/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 Management, including undertaking appropriate searches for new Directors as required.

The Board has also established a Disclosure Committee which comprises the Chairman, Chief Executive Officer, Chief Financial Officer and the General Counsel & Company Secretary. The Disclosure Committee oversees the Company's compliance with its disclosure obligations under the Market Abuse Regulation ("MAR").

KEY ROLES AND RESPONSIBILITIES

Chairman	The Chairman, Simon Burke, is responsible for leading the Board and creating the right conditions to ensure the Board's effectiveness in all aspects of its role, including its membership and that of its Committees. The Chairman sets the Board's agenda, in consultation with the Chief Executive Officer and the General Counsel & Company Secretary, taking full account of 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 Board, Senior Management, shareholders and other major stakeholders. The Chairman has a close working relationship with the Chief Executive Officer and the General Counsel & Company Secretary to ensure that the strategies and actions agreed by the Board are 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 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 Board and for implementing the strategy once approved. In undertaking such responsibilities, the Chief Executive Officer takes advice from and is provided with support by the Management Board 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 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, is also responsible for the Group Treasury, Tax, Legal, Corporate Affairs, and Information Security systems.
Non-executive Directors	The role of the Non-executive Directors is to offer guidance and advice to the 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 & Company Secretary	The General Counsel & Company Secretary, Simon Witham, supports and works closely with the Chairman, the Chief Executive Officer and the Board Committee Chairs in setting agendas for meetings of the Board and its Committees. He supports the accurate, timely and clear flow of information to and from the Board and its Committees, and between Directors and Senior Management. The General Counsel & Company Secretary also advises the Board on corporate governance issues and is responsible for administering Bakkavor's Share Dealing Code and organising the AGM.

BOARD ACTIVITIES

TOPIC	KEY ACTIVITIES AND DISCUSSIONS IN 2018	KEY PRIORITIES IN 2019
Strategy • Agreed the strategic plan for the UK. • Reviewed the Group's International operations in the US and China and set the strategy for the future. • Discussed the Group's capital structure and financial strategy, including capital investments, shareholder returns and the dividend policy.	• Discussed and agreed the forward-looking strategic priorities for the UK, including new business opportunities. • Reviewed and approved the acquisition of Haydens Bakery and the sale of Anglia Crown. • Reviewed financial Key Performance Indicators ("KPIs"). • Reviewed and approved key investment projects in the UK. • Discussed and agreed the forward-looking strategic priorities in the US, including new business opportunities and important expansion projects. • Discussed and agreed the forward-looking strategic priorities in China, including new business opportunities and important expansion projects. • Reviewed the Group's cash flow position and the Group's dividend policy in the context of the wider market and the Group's agreed capital allocation priorities. • Reviewed and agreed the payment of an interim dividend of 2 pence per share in line with the Group's current dividend policy. • Discussed the continuation of investing in the business for growth, underpinned by strong investment principles. • Discussed the balance sheet strategy, capital efficiency and the leverage position of the Group.	• Consider acquisitions and divestments for the UK, US and China as identified and determine appropriate course of action. • Establish detailed implementation plans taking account of strategic importance and capital allocation, and ensure there are robust processes in place to manage and monitor their delivery. • Keep financial KPIs under review. • Keep the Group's dividend policy under review. • Continue diligent management of costs.
Financial performance, business, operational highlights and current trading • Received reports from the Chief Executive Officer and Chief Financial Officer and business updates from the Management Board.	• Reviewed financial performance in the UK, US and China. • Received updates on performance against the prior year and against the budget. • Approved the 2019 budget. • Carried out a comprehensive review of the fresh prepared food ("FPF") market, environment, and impact on consumers and customers. • Reviewed Group Treasury Management. • Approved the introduction of a supplier invoice financing scheme.	• Continue to review the financial performance, business operational highlights and trading throughout the year.
Stakeholders • Engaged with investors and other stakeholders.	• Encouraged strong engagement with investors and other stakeholders. • Discussed investor relations, including feedback following investor roadshows, and presentations/updates from the Company's brokers. • Engaged with individual shareholders at the AGM.	• Continue to work actively to engage with the Group's stakeholders throughout the year. • Review the level of institutional holdings and consider actions to broaden the Group's shareholder base further.

TOPIC	KEY ACTIVITIES AND DISCUSSIONS IN 2018	KEY PRIORITIES IN 2019
Risk and risk management • Carried out a risk assessment and reviewed the Group Risk Register and the technical issues affecting the UK.	• Carried out a robust assessment of principal key risks (see pages 25 to 29), monitored and reviewed the internal controls process, and assessed the Group risk profile by identifying where the business's key risks lay, aligning them with the business's risk appetite and highlighting how to target and mitigate those risks effectively. • Reviewed the potential impact of Brexit to the business. • Received monthly Technical updates for the UK, US and China, monitoring health and safety and food safety issues. • Carried out an in-depth review of the Technical issues affecting the UK, covering food safety, health and safety, the environment and a review of the Group's Crisis Management System. • Reviewed the Group's supply chain management and discussed the systems in place to mitigate supply risks. • Discussed the impact of cyber risk, following a robust review of this area conducted by the Audit and Risk Committee.	• Continue to review key risks and ensure that the Group remains at the forefront of developing and embedding best practice for risk management.
Governance • Considered governance and regulatory changes. • Reinforced compliance with the Group's Code of Conduct.	• Considered the new regulations affecting the Company, such as changes to the Governance Code, the annual Modern Slavery Statement and compliance with the General Data Protection Regulations ("GDPR"). • Received governance updates and training throughout the year including Market Abuse Regulation ("MAR") training. • Reinforced compliance with Bakkavor's Code of Conduct, a document which sets out the Group's culture and values, as well as its key policies and procedures, all in accordance with the principles of good corporate governance. • Reviewed and approved the 2017 and 2018 Annual Report and the 2018 half-year results. The Board agreed that, taken as a whole, the 2017 and 2018 Annual Reports were fair, balanced and understandable.	• Ensure that the Company remains at the forefront of developing and embedding best practice in responsible business behaviour. • Further understanding and planning actions in relation to new regulations over the period. • Maintain and enhance Bakkavor's culture and values and key policies and procedures and ensure these are rolled out to acquired businesses. • Continue to strengthen internal controls and reporting.

BOARD ACTIVITIES CONTINUED

TOPIC	KEY ACTIVITIES AND DISCUSSIONS IN 2018	KEY PRIORITIES IN 2019
Leadership and employees • Group Human Resources Director updates. • Succession, talent development and diversity. • Employee engagement.	• Received regular updates from the Group Human Resources Director highlighting issues throughout the Group such as the National Living Wage increase, gender pay disparities, employee turnover and whistleblowing. • Discussed specific programmes to support EU employees in preparation for Brexit. • Discussed the effective and sustainable management of general talent pipeline and retention for the UK, US and China. • Discussed Senior Management development and succession. • Evaluated the results of the annual Employee Engagement Survey from colleagues across the business, and discussed areas for improvement.	• Continue to focus on general succession planning and talent development. • Undertake a comprehensive review of succession planning and talent development among Senior Management during the year, with clear development plans produced. • Evaluate the results of the annual Employee Engagement Survey.
Board development • Composition, balance and effectiveness.	• Continued to focus on the composition, balance and effectiveness of the Board. • Reviewed the Board composition and discussed and acted on the recommendations of the Nomination Committee, including the appointment to the Board of Jane Lodge and Patrick Cook. • Approved a Board diversity policy. • Undertook an internal evaluation of the Board, its Committees and the Chairman and developed an action plan following constructive suggestions resulting from the evaluation.	• Continue to support and encourage the professional development of Board members to provide them with the relevant skills needed. • Use visits by the Board to operational sites to promote understanding of the business. • Carry out an annual evaluation of the Board, its Committees and the Chairman's performance.

BOARD AND COMMITTEE MEETING ATTENDANCE

In 2018, the Board held nine regular meetings. In addition, the Board will meet when necessary between scheduled meetings to discuss important ad hoc 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.

		Board	Annual General Meeting
Total number of meetings in 2018		9	1
	Scheduled meetings eligible to attend	**Scheduled meetings attended**	**Annual General Meeting**
Executive Directors			
Agust Gudmundsson	9	9	1
Peter Gates[1]	9	8	1
Non-executive Directors			
Robert Berlin[2]	5	4	1
Simon Burke	9	9	1
Sue Clark[3]	9	8	1
Patrick Cook[4]	4	4	N/A
Lydur Gudmundsson	9	9	1
Denis Hennequin	9	9	1
Todd Krasnow[5]	9	8	1
Jane Lodge[6]	7	7	1

1. Peter Gates was unable to attend the Board meeting in March 2018 due to illness.
2. Robert Berlin resigned from the Board in July 2018, and was therefore only eligible to attend five Board meetings.
3. Sue Clark was unable to attend the Board meeting in June 2018 due to prior commitments which had been booked prior to the meeting being rescheduled for this date.
4. Patrick Cook was appointed to the Board in July 2018 and was therefore only eligible to attend four Board meetings.
5. Todd Krasnow was unable to attend the Board meeting in January 2018 due to prior commitments.
6. Jane Lodge was appointed to the Board in April 2018 and was therefore only eligible to attend seven Board meetings.

EFFECTIVENESS

BOARD COMPOSITION

The 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 & Company Secretary.

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

It is a core feature of good corporate governance that the 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 Board and its Committees under review and make recommendations to the Board where changes are appropriate to maintain that balance. The 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 50 to 51.

It is Bakkavor's policy, in line with the Governance Code, that proposed appointments to the 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 Board. More information on this and the Group's diversity statement can be found in the report of the Nomination Committee on page 63.

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 Board's decision-making.

Bakkavor is considered to be fully compliant with the Governance Code, which requires that at least half of the Board, excluding the Chairman, should comprise Non-executive Directors who are determined by the Board to be independent.

The independence of the Non-executive Directors was considered by the Board as part of the Board effectiveness review. In determining whether they remain independent, the Board considered factors such as length of tenure and relationships or circumstances which are likely to affect or appear to affect a Director's judgement. With the exception of Lydur Gudmundsson (formerly the Chairman of Bakkavor) and Patrick Cook (representative of the Baupost Group), all of the Non-executive Directors are considered to be independent in character and judgement and 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 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 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 Board and approved where appropriate.

INSIDE INFORMATION AND SECURITIES DEALINGS

Bakkavor has 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 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 Board has the right balance of individuals to be able to discharge its responsibilities. The Board reviews Senior Management performance and actively seeks to ensure they are mentored. The Board regularly reviews its own composition.

INDUCTION

Following appointment, each Director receives a comprehensive and formal induction to familiarise them with their duties and Bakkavor's business operations and risk and governance arrangements. The induction programme, which is co-ordinated by the Group HR Director and the General Counsel & Company Secretary, 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.

ANNUAL RE-ELECTION OF THE BOARD

In compliance with the Governance Code, all Directors will retire and offer themselves for re-election at each year's AGM. At our first AGM, held on 23 May 2018, each Director offered himself or herself for election as a Director.

BOARD EVALUATION

The Governance Code recommends that the Board should undertake a formal and rigorous annual evaluation of its own performance and that of its Committees and individual Directors. The Board's evaluation of its own performance provides an opportunity to consider ways of identifying greater efficiencies, maximising strengths and highlighting areas for further development.

The Board conducted an internal review led by the Chairman with the support of the General Counsel & Company Secretary during the year. The review was conducted by means of an online questionnaire. It was carefully structured and designed to enable the Board to comment on all aspects of the Board's performance, as well as assist in identifying any potential for improvement in the process of the Board and its Committees. The questionnaire also focused on, amongst other matters, the Board composition, the process of meetings, the timeliness and quality of the information it receives and overall Board behaviours and activities.

The results of the review were considered by the General Counsel & Company Secretary, the Chairman and the Nomination Committee, following which they were discussed at the subsequent Board meeting. A number of key actions were identified following the evaluation, as set out below.

The Board Committees were also reviewed and were found to be highly regarded in terms of effectiveness and decision-making. The Chairman is highly regarded and considered to exhibit a leadership style which promotes effective decision-making, constructive debate and ensures the Board works as a team.

Having considered the findings of the review, the Directors were satisfied that the Board operated effectively in 2018 and there were no areas of concern.

Recommendations arising from the 2018 review	Agreed actions for 2019
Review the annual Board and Committee meetings calendar.	Following discussion with the Directors and the General Counsel & Company Secretary to canvass views, it was decided that the schedule of meetings would remain the same but would be reviewed again in the following year.
Review the Board papers to ensure greater consistency and ensure Board members have sufficient time to review the papers in advance of meetings.	The General Counsel & Company Secretary will work with colleagues on guidance to ensure greater consistency of Board papers and will ensure they are circulated in a timely manner.
Non-executive Directors' visibility around the business.	Further site visits for Non-executive Directors to be scheduled during the year.
Review of the Board agenda.	Board agenda items will be varied to ensure sufficient time for presentations from management.
Increased focus on Senior Management succession planning and talent development.	An in-depth discussion on Senior Management succession planning will be included in the Board agenda during the year.

ACCOUNTABILITY

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 94 and a statement regarding the use of the going concern basis in preparing these Financial Statements is provided in the Directors' Report on page 93.

RISK MANAGEMENT AND INTERNAL CONTROL

The 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 control 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 Board regularly reviews and monitors the Group's risk management and internal control systems and the effectiveness with which it manages the principal risks faced by the Group.

The Directors confirm that the 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 control, is outlined in the 'Risk Management' section on pages 25 to 29 and in the 'Viability Statement' on page 30.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Group's financial reporting process has been designed to provide assurance regarding the reliability of the financial reporting and preparation of its Financial Statements, including Consolidated Financial Statements, for external purposes in accordance with 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 allow 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 70 to 89.

SHAREHOLDER AND STAKEHOLDER ENGAGEMENT

It is the role of the 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 stakeholders and shareholders. Further information is available on page 10.

The 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 Board develop an understanding of the views of shareholders, there is regular dialogue with institutional investors and shareholders, presentations by Senior 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.

Throughout the year, the Chairman, Chief Executive Officer, Senior Independent Director, Chief Financial Officer and Head of Corporate Affairs met regularly with Bakkavor's largest institutional and market analysts to discuss governance developments (including the Remuneration Policy), business strategy and financial performance.

AGM

Bakkavor's AGM provides the Board with the opportunity to communicate with private and institutional investors and it sets aside time at the meeting for shareholders to ask questions.

At the AGM, the Chairman provides a brief summary of the Company's activities during the previous year. All resolutions at the 2018 AGM were voted on by a show of hands. As recommended by the Governance Code, all resolutions were voted on separately and the final voting results, which included all votes cast for, against and withheld, were released to the London Stock Exchange as soon as practicable after the meeting.

Our next AGM will be held on Thursday 23 May 2019. Full details are contained in the Notice of Meeting available on our website and, where applicable, posted with this Annual Report.

MAJOR INTERESTS IN SHARES

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

	29 December 2018		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 (corporate holding structure of the Baupost Group)	143,832,928	24.8	143,832,928	24.8

REPORT OF THE NOMINATION COMMITTEE

"The Nomination Committee has the key role of ensuring we have the right skills on the Board to deliver the Group's strategy and deal with changes in the business environment."

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 activities in 2018.

Bakkavor's Nomination Committee was set up in October 2017 in anticipation of the IPO, and its first meeting was on 28 March 2018.

The Nomination Committee plays a pivotal role in appointing Directors to the Board. It is important that the Board sets the correct 'tone from the top' and that our Directors lead by example and ensure that good standards of behaviour flow throughout the organisation.

COMMITTEE MEMBERSHIP

The Nomination Committee consists of the Chairman, two Independent Non-executive Directors, and one Non-Independent Non-executive Director, who together bring a diverse and complementary range of backgrounds, personal attributes and experience. The biographies of the Committee members are set out on pages 50 to 51.

ROLE OF THE NOMINATION COMMITTEE

The principal role and responsibilities of the Committee include:

- Reviewing the composition of the Board and 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 Board suitable candidates to fill 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
- Overseeing succession planning at Board and Senior Management level

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

ACTIVITIES DURING THE YEAR

Appointments to the Board

During the year, Jane Lodge was appointed as an Independent Non-executive Director and Chair of the Audit and Risk Committee. Patrick Cook was appointed as a Non-executive Director after being proposed by the Baupost Group as their nominee director and objectively assessed and approved by the Nomination Committee. Together they bring skills, experience and behaviours that will complement the existing members of the Board.

Following these changes, the Board consists of a Non-executive Chairman, two Executive Directors and six Non-executive Directors, four of whom are independent.

Appointments to the Board are made on merit against objective criteria and with due regard to the benefits of diversity on the Board. The Committee leads the process for recognising the need for Board appointments and for the recommendation to the Board of candidates for their subsequent appointment. When considering the appointment of Non-executive Directors, the Committee takes into account independence and the provision of an effective and constructive relationship with the Executive Directors.

Member	Member since	Scheduled meetings eligible to attend	Scheduled meetings attended
Todd Krasnow (Chair)	20 October 2017	2	2
Sue Clark	20 October 2017	2	2
Lydur Gudmundsson	20 October 2017	2	2
Denis Hennequin	20 October 2017	2	2
Robert Berlin[1]	20 October 2017	1	1

1. Robert Berlin resigned from the Board of Bakkavor Group plc and as a member of the Nomination Committee on 11 July 2018.

The Nomination Committee considers that the membership of the Board and its Committees is well balanced in terms of skills, effectiveness, experience and independence.

Board diversity

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. During the year, the Company also adopted a Board diversity policy which sets out the Board's ambitions and objectives regarding diversity at Board level. It is the responsibility of the Nomination Committee to implement and monitor the objectives set out in this policy and periodically to review it.

The Directors recognise the importance of diversity and understand the significant benefits that come with having a diverse Board. The 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 identifying the areas on which we will focus. Further details of this can be found on page 45.

We will continue to appoint on merit, based on the skills and experience required for the proper discharge of responsibilities as a member of the Board, while giving consideration to gender and other forms of diversity when the Committee reviews the Board's composition.

For appointments to the Board, Bakkavor uses executive search firms who have signed up to a 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 that both male and female candidates are considered for positions.

Board evaluation process

The Nomination Committee regards the Board evaluation process as an important means of monitoring the composition and structure of the Board. Full details of the Board evaluation process and the resulting action plan are on page 60. The Nomination Committee is satisfied that the Board operated effectively in 2018 and that there were no areas of concern.

Nomination Committee evaluation

The Nomination Committee's performance was considered as part of the overall Board evaluation. The Committee's evaluation was based around the 12 questions for nomination committees posed by the EY and ICSA 2016 report, 'The Nomination Committee: coming out of the shadows'. The report, which was based on a series of roundtable discussions with industry leaders, focused on the role of the nomination committee and how boards could improve this work. The evaluation concluded that the Committee was fulfilling its duties effectively.

Succession planning

Succession planning for the Board and Senior Management is focused on ensuring the right mix of skills and experience. There have been positive discussions about talent management, succession planning and the shape of the Board during the year. Further work will be undertaken in the year ahead to extend the Nomination Committee's work, specifically around contingency planning for Executive Directors and succession and development insight, with a view to further strengthen succession planning for the Executive Directors and Senior Management.

TODD KRASNOW
Chair, Nomination Committee

5 April 2019

REPORT OF THE AUDIT AND RISK COMMITTEE

"The Audit and Risk Committee's remit covers accounting and financial reporting, internal controls and the External Audit. A particular focus during the year was the tender for the External Audit."

CHAIRMAN'S OVERVIEW

I am pleased to present the report of the Audit and Risk Committee for the year ended 29 December 2018. This report describes the Committee's responsibilities and key activities over the year.

In advance of Bakkavor's IPO, the Audit and Risk Committee was set up and chaired by the Company Chairman, Simon Burke. I was appointed to the Board on 3 April 2018 and I assumed the role of Chair of the Audit and Risk Committee. At the same time, Simon Burke stepped down from the Audit and Risk Committee ensuring full compliance with the Governance Code provision C.3.1 that the Company Chairman may not chair the Audit and Risk Committee.

COMMITTEE MEMBERSHIP

The Audit and Risk Committee comprises three Independent Non-executive Directors, including myself as Chair, who provide the range of financial and commercial expertise necessary to meet its responsibilities in a robust and independent manner. I spent 25 years at Deloitte & Touche LLP, and have significant financial experience in the UK listed environment, enabling me to fulfil my role as Audit and Risk Committee Chair.

ROLE OF THE COMMITTEE

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

The Audit and Risk Committee provides an independent overview of the effectiveness of the Group's 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 Board on significant financial reporting issues and judgements
- Monitoring and reviewing and, where appropriate, making recommendations to the Board on the adequacy and effectiveness of Bakkavor's internal control and risk management systems
- 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 in detail the identified 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
- Reviewing the content of the Annual Report and advising the Board whether it is fair, balanced and understandable
- Recommending to the 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, is approved by the Committee.

Following each Committee meeting, a verbal report is made to the Board in which I describe the proceedings of the Committee meeting and make recommendations to the Board as appropriate.

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

The biographies of the Committee members are set out on pages 50 to 51.

Member	Member since	Scheduled meetings eligible to attend	Scheduled meetings attended
Jane Lodge (Chair)[1]	3 April 2018	3	3
Simon Burke[2]	20 October 2017	2	2
Denis Hennequin[3]	20 October 2017	5	4
Sue Clark	20 October 2017	5	5

1. Jane Lodge was appointed to the Board and as Chair of the Audit and Risk Committee on 3 April 2018, and was therefore only eligible to attend three meetings.
2. Simon Burke was the Chairman of the Audit and Risk Committee until the appointment of Jane Lodge on 3 April 2018, and was therefore only eligible to attend two Audit and Risk Committee meetings.
3. Denis Hennequin was unable to attend the Audit and Risk Committee meeting in June 2018 due to illness.

Members of Senior Management are invited to attend Committee meetings as and when their specialist technical knowledge is required. The Committee also meets privately, without management present, and separate private sessions attended by the lead audit partner from the Company's External Auditor are held at the time of each meeting. As Committee Chair, I also regularly meet on a one-to-one basis with the Chief Financial Officer, the Group Head of Risk, representatives from the Internal Audit function and other members of Senior Management. Scheduling meetings in this way enables me better to understand any key issues and areas of concern, and allows sufficient time to facilitate meaningful discussion during the subsequent meeting.

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

AUDIT AND RISK COMMITTEE EVALUATION

The Committee carried out an internal evaluation of its own performance which was also considered as part of the overall Board evaluation. The findings concluded that the Committee was fulfilling its duties effectively.

ACTIVITIES DURING THE YEAR

External Audit

The Committee has primary responsibility for overseeing the relationship with, and performance of, the External Auditor. This includes making the recommendation on the appointment, reappointment and removal of the External Auditor, assessing its independence on an ongoing basis and negotiating the audit fee.

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

Effectiveness of the External Audit process

During the year, an assessment of the quality and effectiveness of the External Audit process was undertaken. The primary purpose of this assessment was to gain assurance that the External Auditor had conducted a comprehensive, appropriate and effective audit. Through a constructive, honest and open dialogue with the External Auditor about its performance, the objectives of the process were to assess each phase of the audit process against a quality framework and discuss with the External Auditor what areas had worked well and what could be improved.

The findings of the assessment were discussed at a Committee meeting, with the Committee concluding that the audit process was robust, challenging and appropriately targeted to focus on the key areas of audit risk.

External Audit tender process

As advised last year, Bakkavor became a constituent of the FTSE 250 at the end of February 2018, and 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 had not run a competitive audit tender process in the last 10 years and was therefore required to carry one out for its first audit after it became a PIE.

During the year, the Committee undertook a full tender process in respect of External Audit services in compliance with legislation and FRC guidance on best practice, in particular ensuring independence in respect of potential audit firms.

Interested firms were subsequently requested to complete a detailed response to a Request For Proposal ("RFP"), and following this a full tender process of firms shortlisted based on the responses to the RFP was undertaken. The tendering firms were judged on objective criteria determined in advance of the process, together with the findings and conclusions of published inspection reports on the audit firms.

Whilst the Committee appreciated the quality of the proposals presented by all the tendering firms, it considered that the submission and team from PricewaterhouseCoopers LLP ("PwC") best met the predefined criteria it had set. It therefore recommended to the Board that PwC be appointed as the Company's External Auditor with effect from the beginning of the 2019 financial year. To ensure a smooth transition, Deloitte remained as the Company's External Auditor for the financial year ended 29 December 2018. PwC observed Deloitte on the audit and is taking full responsibility for the audit with effect from the beginning of the 2019 financial year.

The Committee confirms that there are no contractual obligations which restrict the choice of External Auditor.

Non-audit services are provided in accordance with the Group's policy and in light of the detailed understanding of the Group and expertise in the relevant areas. Further details can be found in Note 6 to the Consolidated Financial Statements.

Internal Audit

The Internal Audit services have been outsourced to RSM, with overall responsibility and direction for the Group's Internal Audit function being retained by the Head of Risk who reports to the Audit and Risk Committee. The Internal Audit function provides assurance over the effectiveness of key internal controls as identified as part of the risk assessment process and reports to the Head of Risk throughout the year and to the Committee at least four times a year.

During the year, a review of the services provided by RSM was undertaken to widen the scope of the Internal Audit function and improve the focus and effectiveness of the Internal Audit approach. A decision was made to run a competitive tender process and firms (including RSM) were invited to tender for this business. Firms provided detailed proposals and had the opportunity to meet Senior Management to raise questions.

The Committee considered the submission from KPMG LLP ("KPMG") to be particularly strong with a robust approach to risk-based audits. It therefore recommended that KPMG be appointed to provide Internal Audit support to the Company with effect from the beginning of the 2019 financial year.

Risk and internal controls

During the year, we continued to enhance our risk management and internal control framework, particularly around the focus of risk discussions both at operating company and Board level. In order to support the Board's robust assessment of the principal risks, the Committee reviewed the Group Register identifying the top risks faced by the Group, and discussed the quantification of these risks and mitigating actions. It has been important for the Committee to gain a good understanding of the risks and emerging risks for the Group and our industry, in addition to the measures being taken to address potential areas of vulnerability. The Committee has challenged both Internal Audit and Senior Management on the effectiveness of controls in place and it is satisfied that measures are being taken to minimise the Group's vulnerability to these risks.

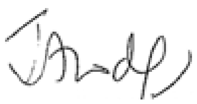
There has been an increasing focus on Information Security ("IS") risks and cyber security over recent years, and this has continued to be a key area of focus by the Committee during the year, with a number of presentations on this topic at Committee meetings. Considerable time has also been spent discussing cyber security risk, with a growing focus on the handling of personal data we hold on our customers and our colleagues, which the Committee recognises is an evolving and complex risk area for many businesses.

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		
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 Board for approval. For further information on the Viability Statement see page 30.
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 Board, the Committee assessed, through discussion with and challenge of Senior 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 Auditor, who took this into account when conducting its audit. It also established through reports from Senior 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 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 on page 61 of the Corporate Governance Report within the Annual Report.	The Committee agreed to recommend to the Board the Annual Report statements relating to the effectiveness of the risk management process and internal control systems.

Reporting issue	Role of the Committee	Conclusion/action taken
Whistleblowing and anti-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 in place and would be kept under review for potential improvements. Following developments and changes introduced to the corporate governance landscape in 2018, the Committee recognises that, going forward, whistleblowing will be regularly monitored by the Board.
Internal Audit		
The Committee is required to oversee the performance, resourcing and effectiveness of the Internal Audit function.	The Company's Internal Audit services are outsourced to an external provider. The external provider has the skills and experience required to carry out Internal Audit reviews across the Company's operational business units with overall responsibility and direction being retained by the Head of Risk. 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. It reviewed and assessed the risk-based Internal Audit plan. It reviewed and monitored management's responsiveness to the findings and recommendations of the Internal Audit function. 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.	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 2019 and, following an Internal Audit tender process during 2018, the Company's Internal Audit services will be provided by KPMG from 2019 onwards, with overall responsibility being retained by the Head of Risk.
Oversight of External Auditor		
The Committee is required to oversee the work and performance of Deloitte as External Auditor, including the maintenance of audit quality during the period.	The Committee met with the key members of the Deloitte audit team to discuss the 2018 audit plan and agree areas of focus. It assessed regular reports from Deloitte on the progress of the 2018 audit and any material issues identified. It debated the draft audit opinion for the 2018 year end. The Committee was also briefed by Deloitte on critical accounting estimates, where significant judgement is needed. The Committee undertook a thorough assessment of the quality and effectiveness of Deloitte as External Auditor and, following the review, the Committee was satisfied that the External Audit had provided appropriate focus on those areas identified as the key risk areas to be considered by the Committee.	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 its Audit and Risk Committee report on the 2018 Financial Statements which highlighted any matters arising from the audit work undertaken by the External Auditor.

Reporting issue	Role of the Committee	Conclusion/action taken
Audit and audit-related fees		
To approve audit and audit-related fees which 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 2018 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 prevent the objectivity and independence of the External Auditor becoming compromised, the Committee has a formal policy governing the engagement of the External Auditor 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 regulations on the statutory audit of public interest entities. 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 services to be provided by the External Auditor. The Committee ensured that firms other than the External Auditor 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 in accordance with the policy during the year.	During the year, non-audit fees of £0.1 million were paid to Deloitte, as discussed in Note 6 to the Consolidated Financial Statements. The Committee continues to follow the statutory guidance to seek to reduce the reliance on the External Auditor for non-audit work.
Issues that were considered most significant in preparing the Annual Report and Financial Statements:		
• **Impairment of goodwill and intangible assets** The Group had significant amounts of goodwill and intangible assets as at 29 December 2018 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 cash flow forecast 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 29 December 2018. The Committee reviewed and approved the associated disclosure in the Financial Statements.
• **Customer deduction accruals** 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 29 December 2018 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 29 December 2018 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.



JANE LODGE
Chair, Audit and Risk Committee

5 April 2019

DIRECTORS' REMUNERATION REPORT

ANNUAL STATEMENT

CHAIRMAN'S OVERVIEW

As the Chair of the Remuneration Committee, I am pleased to present, on behalf of the Board, the Directors' Remuneration Report for the year ended 29 December 2018. 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, which was approved by shareholders at the 2018 AGM
- 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 Remuneration Policy in 2019

As the Remuneration Policy was approved by shareholders last year, there will only be one remuneration-related vote at the 2019 AGM, being the advisory vote on the Directors' Remuneration Report excluding the Policy (i.e. the Annual Statement and Annual Report on Remuneration).

THE COMMITTEE

The Committee is Chaired by Denis Hennequin and its members are Sue Clark and Todd Krasnow. It met four times during 2018.

The Committee is formally constituted and operates on written Terms of Reference which are available at www.bakkavor.com.

The Committee considered the following items during the period:

- Finalising the Remuneration Policy in advance of the 2018 AGM
- Agreeing Executive Director base salary levels from 1 January 2018
- Agreeing performance against the targets and payout for the 2017 annual bonus awards
- Setting the performance targets for the 2018 annual bonus
- Agreeing the award levels and performance targets for the 2018 LTIP awards
- The impact of the new UK Corporate Governance Code and a number of changes to the disclosure requirements in respect of the 2020 Directors' Remuneration Report

REMUNERATION IN 2018

By way of context and as stated in the front part of the Annual Report, Bakkavor performed in line with the Board's expectations and delivered a robust performance in light of challenging market conditions, particularly in the UK.

In respect of remuneration paid for 2018:

- No base salary increase was awarded from 1 January 2018 (Agust Gudmundsson's salary was £750,000 while Peter Gates' salary was £467,000)
- As a result of the threshold EBITDA target not being achieved for 2018, no annual bonus was awarded to the Executive Directors for the year just ended
- No LTIP awards vested during the year (the first such awards held by an Executive Director will vest in 2020)

APPLICATION OF REMUNERATION POLICY FOR 2019

The Remuneration Committee intends to operate the Remuneration Policy for Executive Directors for 2019 on a similar basis to 2018 as follows:

- Executive Director basic salaries were increased from 1 January 2019 (the normal salary review date) by 2.5%, in line with the budgeted general salaried workforce increase
- Annual bonus provision will remain at 80% of salary for the Chief Executive Officer and 125% of salary for the Chief Financial Officer and targets will continue to measure Adjusted EBITDA, Revenue and Free Cash Flow (excluding development projects). Additionally, a new strategic employee engagement target will be added, measured through employee turnover. This brings the bonus criteria in line with the broader workforce.
  No changes will be made to the deferral, whereby one-third of any bonus earned will be deferred for three years with vesting conditional upon continued employment. Any deferral for the Chief Executive Officer will continue to be in cash (given his current shareholding), whereas any deferral for the Chief Financial Officer will be in shares
- LTIP awards will be granted in 2019 at 150% of salary for the Chief Financial Officer (the Chief Executive Officer does not receive LTIP awards). Targets will continue to measure EPS and relative TSR and a two-year post-vesting holding period will continue to apply to awards granted to Executive Directors

SHAREHOLDER FEEDBACK

Our three-year Remuneration Policy was well received by shareholders at the 2018 AGM, and the Committee was pleased to note the very high levels of shareholder support for both the advisory vote on our Directors' Remuneration Report and the binding vote on the Remuneration Policy.

CONCLUSION

The Committee recognises the importance of maintaining a close relationship with shareholders in facilitating the work of the Committee in operating the Remuneration Policy. Therefore, if you have any comments or feedback on this report or our policy more generally, then please let me know through the General Counsel & Company Secretary.

I look forward to receiving your support at the 2019 AGM.

DENIS HENNEQUIN
Chair, Remuneration Committee

5 April 2019

AT A GLANCE SUMMARY

WHAT OUR EXECUTIVE DIRECTORS EARNED DURING 2018

The following table provides a summary of total remuneration for 2018. Further details are set out in the Annual Report on Remuneration on page 83.

£000		Base salary	Benefits	Bonus	LTIP	Pension entitlements	Other	Total remuneration
Executive Directors								
Agust Gudmundsson	**2018**	**750**	**1**	**–**	**–**	**113**	**–**	**864**
	2017	750	1	170	–	113	29	1,063
Peter Gates	**2018**	**467**	**12**	**–**	**–**	**93**	**–**	**572**
	2017	467	12	138	–	93	200	910

2018 annual bonus

Metrics	Weighting	% outcome
Group adjusted EBITDA (pre bonus provision)	50%	0%
Revenue	25%	0%
Free Cash Flow (excluding development projects)	25%	0%
Total (% of max)	100%	0%

No annual bonus is payable for 2018.

LTIP awards vesting

No LTIP awards vested or will vest in respect of performance to 29 December 2018.

HOW OUR EXECUTIVE DIRECTORS WILL BE PAID DURING 2019

A summary of how the Committee intends to operate the Remuneration Policy for 2019 is as follows:

Component	Agust Gudmundsson	Peter Gates
Base salary (2.5% increase from 1 January 2019)	£768,750	£478,675
Pension (% of salary)	15%	20%
Annual bonus max (% of salary)	80%	125%
LTIP award (% of salary)	n/a[1]	150%
Shareholding guidelines (% of salary)	200%	200%

1. The CEO does not participate in the LTIP.

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 UK Corporate Governance Code and the voting guidelines of major UK institutional investor bodies.

The following Policy was approved by shareholders in a binding vote at the 2018 AGM (23 May 2018). It is intended that the Policy will operate for three years from the date of approval. The Policy that was approved, with minor updates where appropriate (e.g. remuneration scenario charts and Non-executive Director terms of engagement), is set out below.

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 scope 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
- 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 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 each 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, it has considered the new provisions in the UK Corporate Governance Code in 2018. As a result, it has formalised a number of existing, and will be introducing a number of new, initiatives to ensure that the employee voice is heard in the boardroom.

The 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 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 since 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 each individual's experience and role within the Group. 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. The annual salary review of Executive Directors takes a number of factors into consideration, including: • Business performance • Salary increases awarded to the overall employee population • Skills and experience of the individual over time • Scope of the individual's responsibilities • Changes in the size and complexity of the Group • Market competitiveness assessed by periodic benchmarking • 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. 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. 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. 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. No recovery or withholding provisions apply.

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
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. The main benefits currently provided include: • Family private medical insurance • Life assurance • Income protection • Health screening • Company car/car allowance • Travel insurance. Under certain circumstances the Group may offer relocation allowances or assistance. Expatriate benefits may be offered where required. Travel and any reasonable business-related expenses (including tax thereon) may be reimbursed on a gross-of-tax basis. 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. 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.
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 contribution for the current Chief Executive Officer and 20% of base salary per annum contribution for the current Chief Financial Officer. A maximum 15% of salary contribution applies to new Directors.	Not performance-related. No recovery or withholding provisions apply.

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
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. 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. Two-thirds of the annual bonus will be payable in cash, typically in March following the end of the financial year. 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. The current Chief Executive Officer's bonus opportunity is lower, at 80% of his base salary. 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. 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. Personal objectives and/or strategic KPIs may also be chosen. Where a sliding scale of targets applies, up to 20% of that element may be payable for threshold performance. 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. 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. Bonus payments, including deferred bonus awards, are subject to recovery and withholding provisions (see 'Recovery and withholding' in the 'Notes to the policy table' on page 78 for further detail).

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. 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. 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. 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. The current Chief Executive Officer will not participate in the LTIP.	The individual plan limit is 200% of base salary in any financial year. 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. Awards will be subject to the achievement of stretching targets designed to incentivise performance in support of the Group's strategy and business objectives. LTIP awards will normally 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 future awards taking into account business priorities at the time of grant. For TSR and financial measures, no more than 25% of each element may vest for threshold performance. 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. Awards are subject to recovery and withholding provisions (see 'Recovery and withholding' in the 'Notes to the policy table' on page 78 for further detail).

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
All-employee share schemes			
Encourage employee share ownership and therefore increase alignment with shareholders.	The Company may, from time to time, operate tax-approved share plans (such as the 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. No recovery or withholding provisions apply.
Share ownership guidelines			
Encourage Executive Directors to build a meaningful shareholding in the Group so as to further align their interests with those of 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. 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 the Group with access to 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. The Chairman's fee is reviewed annually by the Committee (without the Chairman present). Fee levels for the Non-executive Directors are determined by the Company Chairman and Executive Directors. 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. 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 a Non-executive role will be paid by the Company including, if relevant, any gross-up for tax. 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.	When reviewing fee levels, account is taken of market movements in the fees of Non-executive Directors, Board Committee responsibilities and ongoing time commitments. Actual fee levels are disclosed in the Annual Remuneration Report for the relevant financial year.	Not performance-related. 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 Board. In addition, it complies with rules that are either subject to shareholder approval (Long-Term Incentive Plan and Deferred Share Bonus Plan) or to approval by the 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 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 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.

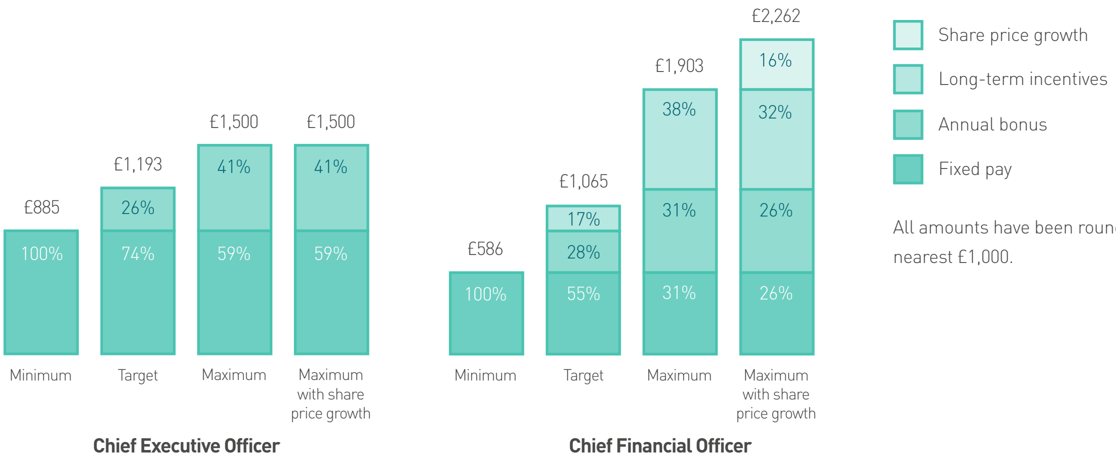
LEGACY ARRANGEMENTS

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 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 2019 remuneration package for each Executive Director under three assumed performance scenarios. These scenarios are based upon the Remuneration Policy set out above.



All amounts have been rounded to the nearest £1,000.

The scenarios used in the graphs above are defined as follows:

	Below Target	**Target**	**Maximum**	**Maximum with share price growth**
Base salary	As at 1 January 2019	As at 1 January 2019	As at 1 January 2019	As at 1 January 2019
Benefits	Estimated value for 2019	Estimated value for 2019	Estimated value for 2019	Estimated value for 2019
Pension	CEO: 15% of salary CFO: 20% of salary	CEO: 15% of salary CFO: 20% of salary	CEO: 15% of salary CFO: 20% of salary	CEO: 15% of salary CFO: 20% of salary
Bonus	0% of Maximum	50% of Maximum	100% of Maximum CEO: 80% of salary CFO: 125% of salary	As per Maximum
LTIP (CFO only)	0% of Maximum	25% of Maximum	100% of Maximum CFO: 150% of salary	As per Maximum albeit a 50% share price increase over 3 years is assumed

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. 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. 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 74. 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. For an internal appointment, his or her existing pension arrangements may continue to operate. 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 opportunity 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 'buyout' remuneration relinquished on leaving a former employer. In the event that such a buyout 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. Any share awards made in this regard may have no performance conditions, or different performance conditions, or a shorter vesting period compared with the Company's existing plans, as appropriate. Shareholders will be informed of any buyout 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 on page 81. 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 relocate, 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 the 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:

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). 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. 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). 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. The extent to which an award will vest in these situations will depend upon two factors: • The extent to which the performance conditions (if any) have been satisfied at that time • 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. 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: • The performance conditions measured at that time • Pro-rating by reference to the time of cessation as described above. Such treatment shall also apply in the case of death.

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 Board and the Director may retain any fees received at the discretion of the Board. Neither Executive Director currently holds any external Non-executive 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 Director	Date of joining Bakkavor	Date of contract or date of appointment
Simon Burke (Chairman)	1 December 2016	20 October 2017
Sue Clark	20 October 2017	20 October 2017
Patrick Cook	12 July 2018	12 July 2018
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
Jane Lodge	3 April 2018	3 April 2018

The Chairman, in consultation with the Executive Directors, is responsible for proposing changes to the Non-executive Directors' fees. The Remuneration Committee 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 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 Statement and Annual Report on Remuneration will be put to a single advisory shareholder vote at the AGM on 23 May 2019.

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 50 to 51.

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.

MEETING ATTENDANCE FOR THE YEAR ENDED 29 DECEMBER 2018

The Committee met four times during the year.

	Attendance
Denis Hennequin (Committee Chair)	4 out of 4
Sue Clark	4 out of 4
Todd Krasnow	4 out of 4

Independent advisers

The Committee takes account of information from both internal and independent sources, including FIT Remuneration LLP ("FIT") which acts as the Committee's adviser. FIT, which replaced Aon New Bridge Street as adviser during the year as a result of a tender process, advised the Committee on all aspects of senior executive remuneration, including remuneration trends and corporate governance best practice.

FIT 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. Bakkavor incurred fees of £18,000 exc. VAT from FIT during 2018, relating to Remuneration Committee advice, while fees of £56,900 exc. VAT were incurred from New Bridge Street ("NBS") during 2018 prior to FIT taking over. Both FIT and NBS billed on a time and materials basis. Neither FIT nor NBS provided any other services to Bakkavor during 2018.

SINGLE TOTAL FIGURE OF DIRECTORS' REMUNERATION – YEAR ENDED 29 DECEMBER 2018 (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 2018 financial year.

£000		Base salary	Benefits	Bonus	LTIP	Pension entitlements	Other	Total remuneration
Executive Directors								
Agust Gudmundsson[1]	**2018**	**750**	**1**	**–**	**–**	**113**	**–**	**864**
	2017	750	1	170	–	113	29	1,063
Peter Gates[2, 3]	**2018**	**467**	**12**	**–**	**–**	**93**	**–**	**572**
	2017	467	12	138	–	93	200	910
Non-executive Directors								
Simon Burke (Chairman)[4]	**2018**	**200**	**–**	**–**	**–**	**–**	**–**	**200**
	2017	86	–	–	–	–	–	86
Robert Berlin[7]	**2018**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2017	–	–	–	–	–	–	–
Sue Clark[9]	**2018**	**70**	**–**	**–**	**–**	**–**	**–**	**70**
	2017	14	–	–	–	–	–	14
Patrick Cook[11]	**2018**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2017	–	–	–	–	–	–	–
Lydur Gudmundsson[2, 5]	**2018**	**274**	**1**	**–**	**–**	**–**	**–**	**275**
	2017	245	1	–	–	–	28	274
Denis Hennequin[8]	**2018**	**70**	**–**	**–**	**–**	**–**	**–**	**70**
	2017	70	–	–	–	–	–	70
Todd Krasnow[6]	**2018**	**100**	**–**	**–**	**–**	**–**	**–**	**100**
	2017	100	–	–	–	–	500	600
Jane Lodge[10]	**2018**	**52**	**–**	**–**	**–**	**–**	**–**	**52**
	2017	–	–	–	–	–	–	–
	2018	**1,983**	**14**	**–**	**–**	**206**	**–**	**2,203**
Total	2017	1,732	14	308	-	206	757	3,017

Notes to the remuneration table

1. In addition to base salary, Agust Gudmundsson was eligible for Director fees, pension and life assurance in Iceland in 2017 and the value of this is shown in the 'Other' column for 2017 (these arrangements ceased as of 30 December 2017).
2. For Executive Directors, taxable benefits comprise car allowance (CFO only) and private medical cover. Lydur Gudmundsson is also entitled to medical coverage in the UK for the benefit of his family.
3. Prior to Admission, according to an arrangement entered into on 16 March 2017, the Chief Financial Officer received a retention bonus of £200,000 in January 2018 subject to continued employment (see "Other" column for 2017). This type of arrangement does not form part of the current Remuneration Policy and will not be repeated. Peter Gates was appointed to the Board on 20 October 2017 but was the Group CFO for the whole of 2017.
4. 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.
5. 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:€1.13. 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).
6. 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.
7. Robert Berlin received no fee for his services and left his post on 11 July 2018.
8. Denis Hennequin joined the Group in November 2016 and became a Non-executive Director in February 2017.
9. Sue Clark joined the Board on 20 October 2017.
10. Jane Lodge joined the Board on 3 April 2018 and her fee is £70,000 p.a.
11. Patrick Cook joined the Board on 12 July 2018, replacing Robert Berlin, and receives no fee for his services.

2018 ANNUAL BONUS (AUDITED)

In 2018, employees were eligible for an annual 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. In 2018, the annual bonus targets and performance-related outcomes were as follows:

Metrics	Weighting	Threshold (0%)	Maximum (100%)	Actual performance	% outcome
Group adjusted EBITDA (pre bonus provision)	50%	£160m	£170m	£154m	0%
Revenue	25%	£1,858m	£1,970m	£1,855m	0%
Free Cash Flow (excluding development projects)	25%	£60m	£70m	£55m	0%
Total (% of max)					**0%**

In addition to the targets above, a minimum adjusted EBITDA of £156 million was required before any bonus was payable. This minimum target was not met.

The resulting annual bonus awards were as follows:

	Maximum bonus potential (% of salary)	Bonus award (% of the maximum)	Bonus award (% of salary)	Total bonus award	Amount paid in cash	Amount to be deferred	Normal deferral currency where relevant
Agust Gudmundsson	80%	0%	0%	£0	£0	£0	Cash
Peter Gates	125%	0%	0%	£0	£0	£0	Shares

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 the performance period ending in 2018.

Awards granted in 2018 (audited)

The following awards, structured as nil cost options, were made under the LTIP in 2018 (the Chief Executive Officer does not participate in the LTIP):

	Date of grant	Basis of award (% of salary)	Face value of awards at grant	Number of shares under award	Date of vesting
Peter Gates	9 April 2018	150%	£700,500[1]	399,372	9 April 2021

1. Based on the five-day average share price of £1.754 to 8 April 2018.

These awards vest in 2021 subject to performance relating to (i) Adjusted Earnings per Share targets as to 50% of the award, and (ii) Relative Total Shareholder Return targets as to the remaining 50% of the award. The details of these targets are shown in the tables below:

Adjusted EPS for 2020 (50% of award)	Portion of award vesting
Below 16.5 pence	0%
16.5 pence	25%
16.5 pence to 18.6 pence	Pro-rata on straight-line basis between 25% and 100%
18.6 pence	100%

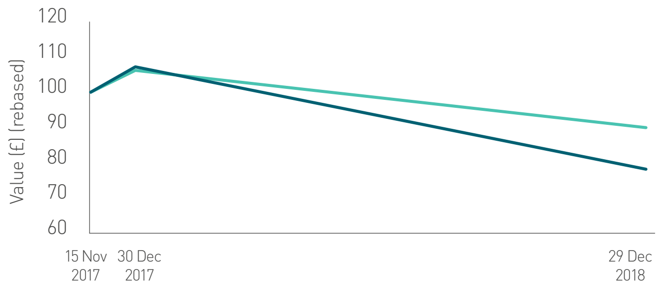
Relative TSR[2] from January 2018 to December 2020 (50% of award)	Portion of award vesting
Below median	0%
Median	25%
Between median and upper quartile	Pro-rata on straight-line basis between 25% and 100%
Upper quartile	100%

2. TSR is measured from January 2018 to December 2020 against the following companies: Associated British Foods, A.G Barr, Booker Group, Britvic, Coca-Cola HBC, Compass Group, Cranswick, Dairy Crest Group, Devro, Diageo, Domino's Pizza Group, DP Eurasia, EI Group, Fullers, Greencore Group, Greene King, Greggs, Hilton Food Group, JD Wetherspoon, J Sainsbury, Marston's, McColl's Retail, Mitchells & Butlers, Morrisons, Ocado Group, Premier Foods, PureCircle, Restaurant Group, SSP Group, Stock Spirits Group, Tate & Lyle, Tesco, Unilever and Whitbread.

Total Shareholder Return ("TSR")

The chart on the right 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 29 December 2018. The FTSE 250 Index is considered by the Board to be the most appropriate broad equity index comparator for Bakkavor.

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.



Source : Datastream (Thomson Reuters)

Outstanding LTIP awards

Details of all outstanding share awards made to the Chief Financial Officer (the Chief Executive Officer does not participate in the LTIP) are set out below:

	Award type	Ex price	Grant date	Interest at December 2017	Awards granted in the year	Awards lapsed in the year	Awards vested in the year	Interest at December 2018	Date of vesting/exercise period
Peter Gates	Pre-IPO LTIP	£0.764	3 July 2017	1,222,515	–	–	–	1,222,515	See Note 1
	LTIP	£0	9 April 2018	–	399,372	–	–	399,372	See Note 2

1. Pre-IPO LTIP 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:
   - 50% vests in April 2020 provided a liquidity event (i.e. IPO or company sale) has occurred since the date of grant.
   - 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.
2. See LTIPs granted in 2018 section above.

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 29 December 2018 (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 29 December 2018 are set out as a percentage of salary or fees in the table below. During the period from 29 December 2018 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			
	29 December 2018	Value of owned shares as a % of salary	200% of salary shareholding guideline met?	Unvested shares with performance conditions
Executive Directors				
Agust Gudmundsson	**145,333,130**	25,617%[1]	Yes	–
Peter Gates	**nil**	0%	No	1,621,887
Non-executive Directors				
Simon Burke (Chairman)	**50,000**	n/a	–	–
Robert Berlin	**nil**	n/a	–	–
Sue Clark	**nil**	n/a	–	–
Patrick Cook	**nil**	n/a	–	–
Lydur Gudmundsson	**145,333,130**	n/a	–	–
Denis Hennequin	**nil**	n/a	–	–
Todd Krasnow	**nil**	n/a	–	–
Jane Lodge	**nil**	n/a	–	–

1. Calculation based on share price of £1.322 as at 29 December 2018.

ALIGNING PAY WITH PERFORMANCE

The total remuneration figure for the Chief Executive Officer in 2018 and 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.

	2018	2017
Total remuneration (£000)	**£864,000**	£1,063,000
Actual bonus (% of the maximum)	**0%**	34%
LTIP vesting (% of the maximum)	**n/a[2]**	n/a[2]

2. 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

The table below shows the percentage change in salary, benefits and annual bonus earned between the year ended 30 December 2017 and the year ended 29 December 2018 for the Chief Executive Officer compared to the average earnings of all of the Group's other UK employees. The Committee chose the Group's UK employees for pay comparison with the Chief Executive Officer as the most meaningful comparator group.

	CEO	Company average
Salary	0%	2.32%
Benefits	0%	n/a
Annual bonus	-100%	n/a

The majority of employees do not receive benefits or annual bonus and so there is no meaningful data. An alternative comparator group is the salaried employees for whom the percentage changes for salary, benefits and bonus were 2.32%, 0% and -100% respectively.

RELATIVE IMPORTANCE OF SPEND ON PAY

The following table shows the Company's actual spend on pay for all Group employees relative to dividends:

	2017	2018	% increase
Staff costs	£460.4m	**£485.1m**	5.4%
Dividends[3]	£0	**£11.6**	n/a

3. Interim dividend paid on 5 October 2018.

STATEMENT OF IMPLEMENTATION OF REMUNERATION POLICY IN 2019

ANNUAL BASE SALARY

Base salaries for the Executive Directors, effective 1 January 2019, are set out below.

	Base salary 2018	Base salary 2019	% increase
Agust Gudmundsson	**£750,000**	£768,750	2.5%
Peter Gates	**£467,000**	£478,675	2.5%

Salary increases for the CEO and CFO are aligned to the budgeted salary increase for the salaried employees in 2019. Neither the CEO nor CFO received a salary increase in the previous year.

BENEFITS AND PENSION

No changes are proposed to the provision of pension and benefits for 2019. 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 2019 annual bonus maximum, as a percentage of base salary, is as follows:

Agust Gudmundsson	80% of salary
Peter Gates	125% of salary

For 2019, the annual bonus for the Executive Directors will comprise four elements, as set out below, which are all key performance indicators of the business.

- Adjusted EBITDA (40%)
- Revenue (20%)
- Free Cash Flow excl. development projects (20%)
- Employee engagement measured through staff turnover (20%)

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 for financial measures 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 2019 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 2021
0%	Less than 16.5 pence
25%	16.5 pence
100%	Equal to or more than 18.6 pence

While the EPS target range is the same as that set for the 2018 LTIP awards, the target range is considered to be appropriate given that the 2018 LTIP awards are currently outside of the target range and in light of the current economic climate and prevailing analysts' forecasts.

Total Shareholder Return (TSR):

Percentage of vesting of relevant portion of award*	Relative TSR ranking against a bespoke group of companies for the period 30 December 2018 to 1 January 2022
0%	Below median
25%	Median
100%	Upper quartile

* Vesting on a straight-line basis

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, consistent with the 2018 awards, a hybrid group has been chosen which includes food producers, beverage companies, food and drug retailers, and a selection of restaurants and bar companies.

The 2019 TSR comparator group comprises:

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

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 FOR 2019

Non-executive and Chairman fees for 2019 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.

Patrick Cook 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 Board. Each Non-executive Director is also entitled to reimbursement of reasonable expenses, including transatlantic travel expenses.

SHAREHOLDER VOTING

The Company is committed to ongoing shareholder dialogue and takes an active interest in voting outcomes. Where there are substantial votes against resolutions in relation to Directors' remuneration, the Company seeks to understand the reasons for any such vote and will report any actions in response to it. The following table sets out actual voting at the AGM on 23 May 2018 in respect of the Directors' Remuneration Report for the year ended 30 December 2017 and the Remuneration Policy:

	Remuneration Policy		Remuneration Report	
	Total number of votes	% of votes cast	Total number of votes	% of votes cast
For	525,675,523	99.73	526,151,177	99.68
Against	1,428,523	0.27	1,707,033	0.32
Total votes cast (excluding withheld votes)	**527,104,046**		**527,858,210**	
Total votes withheld	754,164		0	
Total votes cast (including withheld votes)	**527,858,210**		**527,858,210**	

On behalf of the Board

DENIS HENNEQUIN
Chair, Remuneration Committee

5 April 2019

DIRECTORS' REPORT

The Directors present their report, together with the Group Financial Statements, for the year ended 29 December 2018.

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.

CORPORATE GOVERNANCE STATEMENT

Under the Financial Conduct Authority's Disclosure Guidance and Transparency Rules ("DTR") Rule 7, a requirement exists for a corporate governance statement to be included in this Directors' Report. The corporate governance statement explaining how the Group complies with the Governance Code is set out on page 48. A description of the composition and operation of the Board and its Committees is set out on pages 53 to 55.

STRATEGIC REPORT

Section 414A of the Companies Act 2006 requires the Directors to present a Strategic Report in the Annual Report and Financial Statements. This information can be found on pages 4 to 46.

MANAGEMENT REPORT

For the purposes of DTR Rules 4.1.5R (2) and 4.1.8, this Directors' Report and the Strategic Report on pages 4 to 46 comprise the Management Report.

DISCLOSURES

This Directors' Corporate Governance report fulfils the requirements of the directors' report for the purposes of the Companies Act 2006 ("the Act"). The Strategic Report can be found on pages 4 to 46, and encompasses our corporate social responsibility report.

In line with the Regulations which implement the European Union Accounting Directive (SI 2015/980), a complete list of the Group's subsidiaries has been included on pages 153 to 154 to comply with s409 of the Act.

We have chosen, in accordance with the Act, to include certain information in our Strategic Report or Financial Statements that would otherwise be required to be disclosed in the Directors' Report. These are as follows:

Subject matter	Page
Important events since the financial year end	146
Likely future developments in the business	14
Research and development	118
Use of financial instruments	132
Employee involvement	41
Greenhouse gas emissions	39

LISTING RULE 9.8.4R DISCLOSURES

Disclosures required pursuant to Listing Rule 9.8.4R of the UK Financial Conduct Authority's Listing Rules, can be found within the following sections of the Annual Report and Accounts:

Listing Rule 9.8.4	Required Disclosure	Page reference
(1)	Interest capitalised and tax relief	Note 9 to the Financial Statements
(2)	Publication of unaudited financial information	Not applicable
(3)	Details of long-term incentive schemes	Note 35 to the Financial Statements and Directors' Remuneration Report on pages 70 to 89
(4)	Waiver of emoluments by a Director	Directors' Remuneration Report on pages 70 to 89
(5)	Waiver of future emoluments by a Director	Not applicable
(6)	Non pre-emptive issues of equity for cash	Not applicable
(7)	Non pre-emptive issues of equity for cash by major subsidiary undertakings	Not applicable
(8)	Parent participation in a placing by a listed subsidiary	Not applicable
(9)	Contracts of significance	Not applicable
(10)	Provision of services by a controlling shareholder	Not applicable
(11)	Shareholder waivers of dividends	Not applicable
(12)	Shareholder waivers of future dividends	Not applicable
(13)	Agreements with controlling shareholders	Not applicable

RESULTS

The results for the year ended 29 December 2018 are set out in the Financial Statements on page 102.

DIVIDEND

The Group has confirmed its intention that a dividend equivalent to approximately 40% of Adjusted Profit after Tax for the financial year 2018 will be paid. An interim payment of 2 pence per share was paid in September 2018 and a final dividend of 4 pence per share has been proposed for approval at the AGM on 23 May 2019 and will be payable on 29 May 2019 to shareholders on the register at 3 May 2019.

ARTICLES OF ASSOCIATION

The Articles of Association ("the Articles") are available from the Company's website, or by writing to the General Counsel & Company Secretary at the Company'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.

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 or re-election to the Board. Biographical details of all Directors are set out on pages 50 to 51.

DIRECTORS' SHARE INTERESTS

The interests of the Directors at 29 December 2018 and as at the date of the publication of this report were:

	29 December 2018		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%

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.

Current Directors in year except as noted

Name	Appointed
Robert Berlin	28 September 2017 and resigned on 11 July 2018
Simon Burke	20 October 2017
Sue Clark	20 October 2017
Patrick Cook	12 July 2018
Peter Gates	20 October 2017
Agust Gudmundsson	28 September 2017
Lydur Gudmundsson	20 October 2017
Denis Hennequin	20 October 2017
Todd Krasnow	20 October 2017
Jane Lodge	3 April 2018

Subject to applicable law, the Articles and any directions given by special resolution, the business of the Company will be managed by the Board which may exercise all power of the Company.

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 2 pence each. Details of the Company's issued share capital are also shown in Note 29 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 35 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.

Under the Company's Articles, the 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 s551 of the Companies Act 2006. A renewal of this authority will be proposed at the AGM on 23 May 2019. 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 2019.

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 employee share plans. None of these are considered to be significant, except as explained below, in terms of their likely impact on the business of the Group as a whole.

The agreement that 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 immediately 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 Group's listing on the London Stock Exchange in November 2017, 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 Group's listing on the London Stock Exchange, the Group completed a reorganisation of its corporate structure.

Following the Group's listing on the London Stock Exchange, Agust and Lydur Gudmundsson each indirectly held 25.1% of the issued share capital in Bakkavor Group plc, and BP-PE5 (the corporate holding structure of the Baupost Group) held 24.8% of the issued share capital of Bakkavor Group plc.

LOCK-UP ARRANGEMENTS

The lock-up arrangements for the Company and with certain shareholders which were put in place at the time of the Company's listing on the London Stock Exchange have now expired.

RELATIONS WITH SHAREHOLDERS

The 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 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 following the publication of the full-year and half-year results have been scheduled in 2019.

AGM

The AGM will be held on 23 May 2019 and is an opportunity for shareholders to vote on aspects of the business in person. The 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.

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. For further information, see page 40.

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 employee forums 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 '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. For further information, see page 42.

CHARITABLE DONATIONS

Bakkavor supports its chosen charities; 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. In December 2018, the Group announced two new charity partnerships with Action Against Hunger and FareShare.

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. For further information, see page 46.

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 46. 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 102 to 106 and in Note 28. Financial risk management objectives and exposures to credit risk and liquidity risk are described in Note 28. 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. For further information, see page 30.

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 s418 of the Companies Act 2006 and should be interpreted in accordance with and subject to these provisions.

SUBSEQUENT EVENTS

Please refer to Note 38 of the Group Financial Statements.

SIMON WITHAM
General Counsel & Company Secretary

5 April 2019

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 ("IFRS") 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

5 April 2019

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

In our opinion:

- The Financial Statements of Bakkavor Group Plc (the 'Parent Company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 29 December 2018 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 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 40 of the Consolidated Financial Statements and Notes 1 to 10 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 Financial Reporting Council's (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: • Valuation of the Group's accruals for customer deductions • The risk of impairment of tangible and intangible assets in the US These are the same key audit matters as we identified in the prior year.
Materiality	The materiality that we used for the Group Financial Statements was £4.8 million, 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 100% of adjusted profit before tax, 78% of net assets and 74% of revenue. Our work has included carrying out audit procedures at 9 components out of 20 components identified across the Group.
Significant changes in our approach	There have been no significant changes to our audit approach in the current year.

CONCLUSIONS RELATING TO GOING CONCERN, PRINCIPAL RISKS AND THE 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 considered as part of our risk assessment the nature of the Group, its business model and related risks including where relevant the impact of Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the Directors' assessment of the Group's and Parent Company's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the Directors' plans for future actions in relation to their going concern assessment. 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 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: • The disclosures on pages 25 to 29 that describe the principal risks and explain how they are being managed or mitigated; • The Directors' confirmation on page 93 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 • The Directors' explanation on page 93 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. 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 knowledge 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 customer deductions

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 customer deductions 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. There is complexity in the accruals for customer deductions that gives rise to management judgement and scope for fraud and error in the accounting for these balances. 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 also judgement over the contractual relationships that the Group has with its customers. Further details are included in the Audit and Risk Committee report on page 69 (as they are considered a significant judgement) and the Accounting Policies in Notes 2 and 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 respond to the key matter outlined above: • 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; • We reviewed correspondence with the customers and minutes of meetings held; • 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; • We assessed the appropriateness of forecasts made by management that underpin the calculation of the accruals; • We retrospectively reviewed the historical accuracy of the accruals made and compared to amounts subsequently settled; and • We assessed the disclosures of these arrangements in the Financial Statements.
Key observations	Whilst we identified 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 £650.2 million (2017: £647.2 million), as set out in Note 13 to the Financial Statements. The Group has one cash-generating unit grouping ("CGU grouping"), International (US only), where reasonably possible changes in financial performance could result in impairment. At 29 December 2018 the Group recognised goodwill and intangibles of £51.1 million and tangible assets of £57.1 million in relation to this CGU grouping. The US CGU grouping has a relatively low level of headroom and the highest sensitivity to changes in the underlying assumptions. Further details are included in Note 13. 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 grouping 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. These items are all subjective and could lead to an impairment charge if incorrect. This matter has been identified by management within the Audit and Risk Committee report on page 69 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: • We assessed the design and implementation of controls over the intangible and tangible fixed asset impairment review process; • We used internal valuation experts to determine whether management's discount rate is appropriate; • We agreed long-term growth rates used in the impairment review to external sources of evidence; • We performed sensitivity analysis by reducing cash inflows and increasing the discount rate; and • We assessed the disclosures relating to the impairment review in the Financial Statements.
Key observations	Whilst we identified differences between the rates used by management in the impairment review compared to those suggested by our internal valuation specialists and other sources of evidence, we concluded that the differences were not significant and would not have resulted in any impairment. We obtained sufficient assurance that the underlying assumptions for the US CGU grouping are reasonable and supportable at the assessment date and therefore concur with management's conclusions that no impairment should be recognised.

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 Financial Statements	Parent Company Financial Statements
Materiality	£4.8 million (2017: £4.5 million)	£4.6 million (2017: £4.3 million)
Basis for determining materiality	5% of adjusted profit before tax (2017: 5% of adjusted profit before tax). Adjusted profit before tax is defined as profit before tax adjusted for other items.	Determined on the basis of 2% (2017: 2%) of net assets and capped at 95% (2017: 95%) of Group materiality.
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 as the benchmark which reflects the underlying performance of the business and reduces the risk of volatility.	The Parent Company is non-trading and acts as a holding company and therefore we believe that net assets is the appropriate benchmark.

We agreed with the Audit and Risk Committee that we would report to the Committee all audit differences in excess of £0.24 million (2017: £0.23 million), 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 100% (2017: 83%) of adjusted profit before tax, 78% (2017: 87%) of net assets and 74% (2017: 72%) of revenue. In addition, review procedures covered components representing 16% (2017: 10%) of net assets and 11% (2017: 6%) of revenue.

We identified 20 (2017: 21) components that make up the Group, and the Group engagement team carried out audit procedures at nine (2017: nine) of these components. Review procedures were completed at an additional two (2017: one) components by component auditors.

Our audit work has included the use of two component auditors. We planned and reviewed the component auditors' work, issuing instructions to them and evaluating the results of the work performed; this included a visit to one of the components during the period and a review of documentation as appropriate.

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 nine components.

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.

OTHER INFORMATION

The Directors are responsible for the other information. The other information comprises the information included in the Annual 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 position and 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.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud, are set out below.

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

EXTENT TO WHICH THE AUDIT WAS CONSIDERED CAPABLE OF DETECTING IRREGULARITIES, INCLUDING FRAUD

We identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- Enquiring of management, internal audit and the Audit and Risk Committee, including obtaining and reviewing supporting documentation, concerning the Group's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- Discussing among the engagement team including significant component audit teams and involving relevant internal specialists, including tax, valuations, pensions and IT regarding how and where fraud might occur in the Financial Statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in the valuation of the Group's accruals for customer deductions; and
- Obtaining an understanding of the legal and regulatory frameworks in which the Group operates, focusing on those laws and regulations that had a direct effect on the Financial Statements or that had a fundamental effect on the operations of the Group. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, pensions legislation, tax legislation and health and safety legislation.

Audit response to risks identified

As a result of performing the above, we identified valuation of the Group's accruals for customer deductions as a key audit matter. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risk identified included the following:

- Reviewing the Financial Statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- Enquiring of management, the Audit and Risk Committee and in-house and external legal counsel concerning actual and potential litigation and claims;
- Performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- Reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC; and
- In addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and significant component audit teams including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

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

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 two years, covering the periods ending on 30 December 2017 and 29 December 2018.

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 14 years, covering the periods ending 31 December 2005 to 29 December 2018.

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).

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.

William Smith

WILLIAM SMITH MA FCA (SENIOR STATUTORY AUDITOR)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom

5 April 2019

CONSOLIDATED INCOME STATEMENT

52 WEEKS ENDED 29 DECEMBER 2018

		52 weeks ended 29 December 2018			52 weeks ended 30 December 2017		
£ million	Notes	Underlying activities	Other items[1]	Total	Underlying activities	Other items[1]	Total
Continuing operations							
Revenue	4,5	1,855.2	–	1,855.2	1,814.8	–	1,814.8
Cost of sales		(1,368.6)	–	(1,368.6)	(1,329.1)	–	(1,329.1)
Gross profit		486.6	–	486.6	485.7	–	485.7
Distribution costs		(77.2)	–	(77.2)	(77.2)	–	(77.2)
Other administrative costs	7	(298.1)	(21.5)	(319.6)	(297.5)	(15.4)	(312.9)
Loss on disposal of subsidiary	30	–	(4.6)	(4.6)	–	–	–
Share of results of associates after tax	17	0.4	–	0.4	0.6	–	0.6
Operating profit/(loss)		111.7	(26.1)	85.6	111.6	(15.4)	96.2
Finance costs	9	(13.2)	–	(13.2)	(21.8)	(13.2)	(35.0)
Other gains and (losses)	10	1.3	4.2	5.5	(5.0)	(17.2)	(22.2)
Profit/(loss) before tax		99.8	(21.9)	77.9	84.8	(45.8)	39.0
Tax (charge)/credit	11	(14.9)	4.2	(10.7)	(14.3)	6.3	(8.0)
Profit/(loss) for the period attributable to equity holder of the Parent Company	6	84.9	(17.7)	67.2	70.5	(39.5)	31.0
Earnings per share							
Basic	12			11.6p			5.8p
Diluted	12			11.5p			5.8p

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 items that are significant in nature and are important to users in understanding the business, including impairment of assets, disposals of subsidiaries and associates, one-off finance costs relating to redemptions and other refinancing activities, and fair value adjustments. Details of the alternative performance measures that the Group uses can be found in Note 40.

The Notes to the accounts form an integral part of the Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME AND EXPENSE

52 WEEKS ENDED 29 DECEMBER 2018

£ million	Notes	52 weeks ended 29 December 2018	52 weeks ended 30 December 2017
Profit for the period		**67.2**	31.0
Other comprehensive (expense)/income			
Items that will not be reclassified subsequently to profit or loss:			
Actuarial (loss)/gain on defined benefit pension schemes	36	**(6.3)**	12.3
Tax relating to components of other comprehensive income	11	**1.0**	(2.1)
		(5.3)	10.2
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		**7.7**	(7.6)
		7.7	(7.6)
Total other comprehensive income		**2.4**	2.6
Total comprehensive income		**69.6**	33.6

The Notes to the accounts form an integral part of the Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 29 DECEMBER 2018

£ million	Notes	29 December 2018	30 December 2017
Non-current assets			
Goodwill	13	**650.2**	647.2
Other intangible assets	14	**3.0**	2.6
Property, plant and equipment	15	**426.9**	337.5
Interests in associates	17	**12.5**	12.0
Other investments	18	**0.1**	0.1
Deferred tax asset	24	**19.6**	3.2
Retirement benefit asset	36	**–**	5.2
Derivative financial instruments	23	**0.2**	0.1
		1,112.5	1,007.9
Current assets			
Inventories	19	**62.8**	54.8
Trade and other receivables	20	**142.7**	147.9
Cash and cash equivalents	21	**12.4**	20.9
Derivative financial instruments	23	**1.9**	1.6
		219.8	225.2
Total assets		**1,332.3**	1,233.1
Current liabilities			
Trade and other payables	26	**(391.3)**	(393.4)
Current tax liabilities		**(6.5)**	(3.7)
Borrowings	22	**(5.0)**	(1.5)
Obligations under finance leases	25	**(1.6)**	(0.8)
Provisions	27	**(3.3)**	(3.1)
Derivative financial instruments	23	**–**	(0.6)
Deferred income		**(0.7)**	(0.7)
		(408.4)	(403.8)
Non-current liabilities			
Trade and other payables	26	**(0.4)**	(0.4)
Borrowings	22	**(308.5)**	(282.1)
Obligations under finance leases	25	**(3.9)**	(3.1)
Provisions	27	**(15.0)**	(14.6)
Derivative financial instruments	23	**–**	(0.2)
Deferred tax liabilities	24	**(24.3)**	(16.6)
Retirement benefit obligation	36	**(0.5)**	–
Deferred income		**(1.9)**	(2.2)
		(354.5)	(319.2)
Total liabilities		**(762.9)**	(723.0)
Net assets		**569.4**	510.1
Equity			
Share capital	29	**11.6**	11.6
Share premium	29	**–**	366.1
Merger reserve	29	**(130.9)**	(130.9)
Translation reserve	29	**33.8**	26.1
Retained earnings		**654.9**	237.2
Total equity		**569.4**	510.1

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 5 April 2019. 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 29 DECEMBER 2018

	Equity attributable to owners of the parent						
£ million	Share capital	Share premium	Merger reserve	Capital reserve	Translation reserve	Retained earnings	**Total equity**
Balance at 1 January 2017	1.0	–	54.9	98.8	33.7	190.4	**378.8**
Profit for the period	–	–	–	–	–	31.0	**31.0**
Other comprehensive (expense)/income for the period	–	–	–	–	(7.6)	10.2	**2.6**
Total comprehensive (expense)/income for the period	–	–	–	–	(7.6)	41.2	**33.6**
Issue of share capital (Note 29)	10.6	374.1	–	–	–	–	**384.7**
Share issue costs (Note 29)	–	(8.0)	–	–	–	4.6	**(3.4)**
Movement in merger reserve due to corporate restructure (Note 29)	–	–	(185.8)	(98.8)	–	–	**(284.6)**
Credit for share-based payments (Note 35)	–	–	–	–	–	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**
Profit for the period	–	–	–	–	–	67.2	**67.2**
Other comprehensive income/(expense) for the period	–	–	–	–	7.7	(5.3)	**2.4**
Total comprehensive income for the period	–	–	–	–	7.7	61.9	**69.6**
Dividends paid (Note 29)	–	–	–	–	–	(11.6)	**(11.6)**
Cancellation of share premium account (Note 29)	–	(366.1)	–	–	–	366.1	**–**
Credit for share-based payments (Note 35)	–	–	–	–	–	1.5	**1.5**
Deferred tax on share schemes	–	–	–	–	–	(0.2)	**(0.2)**
Balance at 29 December 2018	**11.6**	**–**	**(130.9)**	**–**	**33.8**	**654.9**	**569.4**

The Notes to the accounts form an integral part of the Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

52 WEEKS ENDED 29 DECEMBER 2018

£ million	Notes	52 weeks ended 29 December 2018	52 weeks ended 30 December 2017
Net cash generated from operating activities	32	**99.1**	93.4
Investing activities:			
Dividends received from associates		**0.7**	0.7
Purchases of property, plant and equipment		**(112.7)**	(79.1)
Proceeds on disposal of property, plant and equipment		**–**	2.5
Acquisition of subsidiary	31	**(8.5)**	–
Disposal of subsidiary net of cash disposed of	30	**(3.2)**	–
Net cash used in investing activities		**(123.7)**	(75.9)
Financing activities:			
Dividends paid	29	**(11.6)**	–
Proceeds on issue of shares (net)		**–**	96.6
Increase in borrowings		**28.7**	325.0
Repayments of borrowings		**–**	(439.4)
Repayments of obligations under finance leases		**(1.1)**	(0.8)
Net cash generated from/(used in) financing activities		**16.0**	(18.6)
Net decrease in cash and cash equivalents		**(8.6)**	(1.1)
Cash and cash equivalents at beginning of period		**20.9**	22.5
Effect of foreign exchange rate changes		**0.1**	(0.5)
Cash and cash equivalents at end of period		**12.4**	20.9

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 has 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 for the 52 weeks ended 30 December 2017 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:	
IFRS 2	Classification and Measurement of Share-based Payment Transactions
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'

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 European Union):

New or revised standards:	
IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
IFRS 16	Leases
IFRS 17	Insurance Contracts

Amendments:	
IFRS 9	Prepayment Features with Negative Compensation
IFRS 15	Clarifications to IFRS 15 'Revenue from Contracts with Customers'
IAS 28	Long-term Interests in Associates and Joint Ventures
Various	Annual Improvements to IFRS Standards 2015–2017 Cycle
	IFRS 3 'Business Combinations', IFRS 11 'Joint Arrangements', IAS 12 'Income Taxes' and IAS 23 'Borrowing Cost'
IAS 19	Plan Amendment, Curtailment or Settlement
IFRS 10	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
IFRIC 23	Uncertainty over Income Tax Treatments

With the exception of 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.

IFRS 9 FINANCIAL INSTRUMENTS

IFRS 9 'Financial Instruments' addresses the classification, measurement and recognition of financial assets and liabilities. The standard replaces IAS 39 'Financial Instruments: Recognition and Measurement', and has been completed in a number of stages with the final version issued by the IASB in July 2014. IFRS 9 introduces new rules for hedge accounting and a new impairment model for financial assets. The Group will apply the standard for the reporting period commencing 30 December 2018. A complete review and assessment of IFRS 9 has been conducted with the conclusion that the introduction of the standard will have no material impact on the Group.

1. GENERAL INFORMATION (CONTINUED)

IFRS 15 'REVENUE FROM CONTRACTS WITH CUSTOMERS'

IFRS 15 'Revenue from Contracts with Customers' specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction Contracts'. The Standard provides a single, principles-based five-step model to be applied to all contracts with customers. The Group will apply the standard for the reporting period commencing 30 December 2018. Management's assessment is that the adoption of IFRS 15 will have no impact on the timing of revenue recognition compared with that adopted under IAS 18. The principal reason for this is that the Group only has an enforceable right to bill once the product is delivered to the customer. A complete assessment has been carried out, focusing in particular on variable consideration. Some agreements with customers offer discounts or volume rebates and the Group has reviewed these arrangements and concluded that there will be no change to the timing of recognition of such variable consideration as a result of the introduction of IFRS 15.

GENERAL IMPACT OF APPLICATION OF IFRS 16 LEASES

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use asset and a lease liability at the lease commencement for all leases, except for short-term leases and leases of low-value assets.

The date of initial application of IFRS 16 for the Group is 30 December 2018.

The Group will apply IFRS 16 using the modified retrospective, asset equals liability approach with no restatement of the comparative information.

IMPACT OF THE NEW DEFINITION OF A LEASE

The Group will make use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to leases entered or modified before 30 December 2018.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group will apply the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 30 December 2018. In preparation for the first-time application of IFRS 16, the Group has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not change significantly the scope of contracts that meet the definition of a lease for the Group.

IMPACT ON LESSEE ACCOUNTING

FORMER OPERATING LEASES

IFRS 16 changes how the Group accounts for leases previously classified as operating leases under IAS 17, which were off-balance-sheet.

Applying IFRS 16, for all leases (except as noted below), the Group will:

a) recognise right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of future lease payments;

b) recognise depreciation of right-of-use assets and interest on lease liabilities in the consolidated income statement; and

c) separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated statement of cash flows.

Lease incentives (e.g. free rent period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive liability, amortised as a reduction of rental expense on a straight-line basis.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36 'Impairment of Assets'. This replaces the previous requirement to recognise a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Group has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense will be presented within other expenses in the consolidated income statement.

FORMER FINANCE LEASES

The main difference between IFRS 16 and IAS 17 with respect to assets formerly held under a finance lease is the measurement of residual value guarantees provided by a lessee to a lessor. IFRS 16 requires that the Group recognises as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by IAS 17. This change will not have a material effect on the Group's Consolidated Financial Statements.

IMPACT ON THE FINANCIAL STATEMENTS

The estimated impact ranges on the Financial Statements in the year of transition is expected to be as follows:

£ million	Range low to high	
Depreciation increase	(11)	(13)
Finance costs increase	(2)	(3)
Other administrative costs decrease	12	13
Profit after tax decrease	(1)	(3)
Basic and diluted earnings per share decrease (pence)	(0.2)	(0.3)
Total assets increase at transition date	75	83
Total liabilities increase at transition date	(75)	(83)

Previously reported equity will remain unchanged under the approach taken by the Group.

The expected impact of adoption as at 30 December 2018 may be subject to change until the Group presents its first Financial Statements under the new standards.

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 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 2020.

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. In addition, the Directors have carried out a robust assessment of the potential implications of Brexit. 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 2018 is quoted in these Financial Statements this relates to the 52-week period ended 29 December 2018. The fiscal year 2017 relates to the 52-week period ended 30 December 2017.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 remeasured 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.

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
- 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.

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.

OTHER ITEMS

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 the income statement 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 the income statement 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.

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 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 workforce. Details of the principal actuarial assumptions used in calculating the recognised asset/liability for the defined benefit plan, and the sensitivity of reported amounts to changes in those assumptions, are given in Note 36.

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 Note 13 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 position, 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 in the US and China.

The Group manages the performance of its businesses through the use of 'Adjusted EBITDA' as defined in Note 40.

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 29 December 2018:

£ million	UK	International	Un-allocated	Total
Revenue	1,653.6	201.6	–	1,855.2
Adjusted EBITDA	147.7	5.8	–	153.5
Depreciation	(35.1)	(4.8)	–	(39.9)
Amortisation	–	(0.4)	–	(0.4)
Other items (Note 7)	(6.5)	(15.0)	–	(21.5)
Share scheme charges	(1.5)	–	–	(1.5)
Loss on disposal of property, plant and equipment	(0.2)	(0.2)	–	(0.4)
Loss on disposal of subsidiary	(4.6)	–	–	(4.6)
Share of results of associates	–	0.4	–	0.4
Operating profit	99.8	(14.2)	–	85.6
Finance costs				(13.2)
Other gains				5.5
Profit before tax				77.9
Tax				(10.7)
Profit for the period				67.2
Other segment information:				
Capital additions	66.3	52.8	–	119.1
Interests in associates	–	12.5	–	12.5
Total assets	1,098.9	218.9	14.5	1,332.3
Non-current assets	931.3	181.0	0.2	1,112.5

All of the Group's revenue is derived from the sale of goods in 2018. There were no inter-segment revenues. The un-allocated amount of £0.2 million in non-current assets relates to derivative financial instruments.

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)
Other 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 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.

4. SEGMENTAL INFORMATION (CONTINUED)

MAJOR CUSTOMERS

In 2018, the Group's four largest customers accounted for 76.2% (2017: 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:

	2018	2017
Customer A	30.2%	30.2%
Customer B	25.0%	25.9%
Customer C	11.5%	11.5%
Customer D	9.5%	9.9%

5. REVENUE

£ million	2018	2017
Continuing operations		
Sale of goods	1,855.2	1,814.8
	1,855.2	1,814.8

6. PROFIT FOR THE PERIOD

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

£ million	2018	2017
Continuing operations		
Depreciation of property, plant and equipment:		
• owned	39.0	38.8
• leased	0.9	0.8
Research and development costs	7.7	9.3
Cost of inventory recognised as an expense	885.5	863.3
Write-down of inventories recognised as an expense	1.0	3.4
Amortisation of intangible assets	0.4	0.7
Other items (Note 7)	21.5	15.4
Change in fair value of other payable (Note 10)	4.2	–
Loss on disposal of property, plant and equipment	0.4	0.5
Loss on disposal of subsidiary (Note 30)	4.6	–
Share scheme charges (Note 35)	1.5	0.8
Foreign exchange (gains)/losses (Note 10)	(0.2)	2.9
Staff costs (Note 8)	485.1	460.4

The analysis of the Auditor's remuneration is as follows:

£ million	2018	2017
The audit of the Company's Consolidated Financial Statements	0.1	0.1
The audit of the Company's subsidiaries pursuant to legislation	0.4	0.3
Total audit fees	0.5	0.4
Tax services	0.1	0.4
Audit related assurance services	–	0.3
Other assurance services	–	0.5
Total non-audit fees	0.1	1.2

Tax services for 2018 relate to overseas employment tax work under the derogation provisions for non-audit services. Audit related assurance services in 2017 represent the fee for the audit of the Consolidated Financial Statements for the 26-week period ended 1 July 2017 required for the public listing. Other assurance services relate to assurance work carried out for the public listing. The £0.8 million for audit related assurance services and other assurance services in 2017 were charged to share premium.

All non-audit services provided in the prior period 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 that are not expected to reoccur. 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 ongoing trading activities.

OTHER ADMINISTRATIVE COSTS

Other administrative costs include items that, in management's judgement, should be disclosed by virtue of their nature or amount and will typically include major restructuring programmes, legal cases, corporate transaction costs and pre-commissioning and start-up costs for new manufacturing facilities. The amounts are as follows:

£ million	2018	2017
Continuing operations		
Public listing costs	–	10.4
Restructuring costs	–	3.1
Legal cases	–	0.6
New site costs	12.4	1.3
Disruption costs	2.6	–
Onerous lease provision	1.7	–
GMP equalisation	2.6	–
Impairment of property, plant and equipment	3.5	
Gain on bargain purchase	(1.3)	
	21.5	15.4

2018

The Group has incurred £21.5 million of Other items costs in the period, of which £12.4 million related to the initial start-up costs for the opening of new factories in the US and China, and £2.6 million for disruption costs as the existing factory in Carson in the US was expanded. In addition, an onerous lease provision of £1.7 million was made in respect of the Group's non-core UK fast casual restaurant business and there was a charge of £2.6 million in respect of meeting the change in GMP for the defined benefit pension scheme which came into force from October 2018.

During the period, the Group has made an impairment charge of £3.5 million in the UK segment (2017: £nil) of property, plant and equipment, as the relevant assets no longer have any future value for the Group. See Note 15 for further information on the impairment charge.

The Group's acquisition of Haydens Bakery Limited (see Note 31) resulted in a gain on bargain purchase of £1.3 million, which is required to be released to income.

2017

In 2017, the Group incurred Other items costs of £15.4 million, of which £10.4 million related to costs incurred for the public listing in that year and £3.1 million related to the cost of closing a site in the UK and moving related operations to other sites. The remaining costs related to the Group's International segment, of which £1.3 million were in respect of initial start-up costs for the opening of a new site in the US and £0.6 million were due to ongoing employment litigation in the US.

Further information on Other items not included in administrative costs for the loss on disposal of subsidiaries in the period can be found in Note 30, and for the fair value gain in the period can be found in Note 10. Further information on the refinancing expenses included within Other items in the prior period can be found in Notes 9 and 10.

8. STAFF COSTS

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

	2018 Number	2017 Number
Continuing operations		
Production	16,706	16,653
Management and administration	2,183	1,992
Sales and distribution	953	948
	19,842	19,593

Their aggregate remuneration comprised:

£ million	2018	2017
Continuing operations		
Wages and salaries	426.3	409.3
Social security and other costs	47.3	44.0
Other pension costs (Note 36)	11.5	7.1
	485.1	460.4

Details of the emoluments paid to Directors are included on page 84 of the Directors' remuneration report.

9. FINANCE COSTS

£ million	2018	2017
Continuing operations		
Interest on borrowings	12.7	19.9
Interest on obligations under finance leases	0.2	0.2
Amortisation of refinancing costs	1.4	4.9
Call premium on redemption of Senior Secured Notes	–	9.9
Unwinding of discount on provisions (Note 27)	0.4	0.3
Total interest expense	14.7	35.2
Less: amounts included in the cost of qualifying assets	(1.5)	(0.2)
	13.2	35.0

In 2017, the call premium of £9.9 million and the £3.3 million of accelerated amortisation of refinancing fees (included in the £4.9 million) relating to the redemption of the 2018 and 2020 Senior Secured Notes were 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% (2017: 2.8%) to expenditure on such assets.

10. OTHER GAINS AND (LOSSES)

£ million	2018	2017
Continuing operations		
Foreign exchange gains/(losses)	0.2	(2.9)
Change in the fair value of derivative financial instruments	1.1	(2.1)
Change in fair value of call option	–	(17.2)
Release of other payable	4.2	–
	5.5	(22.2)

Other gains and (losses) for 2018 includes a gain of £4.2 million on the release of an amount in other payables that was held at fair value in respect of a potential liability for a disputed historical claim which has not materialised and is now time-barred. This has been classified as Other items in the consolidated income statement.

Other gains and (losses) for 2017 includes a loss of £17.2 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. The loss in 2017 has been classified as Other items in the consolidated income statement due to the fact that this related to the previous financing structure.

11. TAX

£ million	2018	2017
Continuing operations		
Current tax:		
Current period	**16.8**	12.2
Prior period adjustment	**1.5**	(0.4)
Total current tax charge	**18.3**	11.8
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	**(0.2)**	(0.3)
Change in US tax rate	**–**	0.7
Benefit arising from previously unrecognised temporary differences of a prior period	**(4.6)**	(1.6)
Unrecognised tax loss originating in the current period	**0.2**	0.4
Total deferred tax credit (Note 24)	**(7.6)**	(3.8)
Tax charge for the period	**10.7**	8.0

UK corporation tax is calculated at 19% (2017: 19.25%) of the estimated assessable profit for the period. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The Group tax charge for the period was £10.7 million (2017: £8.0 million). The £10.7 million charge represents an effective tax rate of 13.7% (2017: 20.5%) on Profit Before Tax of £77.9 million (2017: £39.0 million). Most of the Group's profits were earned in the UK, where the statutory tax rate was 19% for 2018 (2017: 19.25%). This slightly lower rate reduced the tax charge by £0.2 million in 2018 (2017: £0.5 million).

The main reason for the lower effective rate was because of the increased recognition of deferred tax assets in respect of losses in overseas subsidiaries. These are only recognised to the extent that the losses are expected to be used against future profits. Excluding Other items, the effective tax rate was 14.9%. It is expected that the rate will be between 15% and 16% in 2019. Other reconciling items are shown in the table below.

Overseas tax rates that 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%.

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

	2018 £ million	2018 %	2017 £ million	2017 %
Profit before tax:	**77.9**	**100.0**	39.0	100.0
Tax charge at the UK corporation tax rate of 19% (2017: 19.25%)	**14.8**	**19.0**	7.5	19.3
(Non-taxable income)/non-deductible expenses	**(0.5)**	**(0.6)**	1.8	4.6
Change in US tax rate	**–**	**–**	0.7	1.8
Adjustment in respect of prior periods	**1.5**	**1.9**	(0.4)	(1.0)
Tax effect of losses carried forward not recognised	**0.2**	**0.3**	0.4	1.0
Unprovided deferred tax assets now recognised	**(4.6)**	**(5.9)**	(1.6)	(4.1)
Overseas taxes at different rates	**(0.5)**	**(0.7)**	(0.1)	(0.3)
Deferred tax change in rate	**(0.2)**	**(0.3)**	(0.3)	(0.8)
Tax charge and effective tax rate for the period	**10.7**	**13.7**	8.0	20.5

In 2018, the tax risk provision was £nil (2017: £nil) 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 the Group operates.

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 Organisation for Economic Co-operation and Development ("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 15 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 15 BEPS actions is expected to have any material effect on the Group.

11. TAX (CONTINUED)

Similar to the BEPS initiative, the European Union has also introduced measures to prevent international tax avoidance. This applies to all countries within the European Union. Subject to this, the member states are largely free to determine their own corporation tax system and tax rates. For this reason it is expected that Brexit, in whatever form it may take, will not materially affect the corporation tax position of the Group.

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. 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 £1.0 million credit (2017: £2.1 million charge) relating to tax on the defined benefit pension scheme actuarial surplus has been recognised directly in other comprehensive income. Also, a deferred tax charge of £0.2 million (2017: £0.2 million credit) 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.

12. 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	2018	2017
Profit attributable to equity shareholders of the Company	67.2	31.0

NUMBER OF SHARES

'000	2018	2017
Weighted average number of Ordinary shares	579,426	530,738
Effect of potentially dilutive Ordinary shares	2,993	857
Weighted average number of Ordinary shares including dilution	582,419	531,595

The weighted average number of shares in the prior period has been adjusted to account for the 5 for 1 share split that occurred in November 2017.

	2018	2017
Basic earnings per share	11.6p	5.8p
Diluted earnings per share	11.5p	5.8p

The Group calculates Adjusted basic earnings per Ordinary share and details of this can be found in Note 40, Alternative performance measures.

13. GOODWILL

£ million	
Cost	
At 31 December 2016	704.5
Exchange differences	(4.8)
At 30 December 2017	699.7
Exchange differences	3.2
At 29 December 2018	**702.9**
Accumulated impairment losses	
At 31 December 2016	(53.0)
Exchange differences	0.5
At 30 December 2017	(52.5)
Exchange differences	(0.2)
At 29 December 2018	**(52.7)**
Carrying amount	
At 29 December 2018	**650.2**
At 30 December 2017	647.2

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	**29 December 2018**	30 December 2017
UK	**601.5**	601.5
International	**48.7**	45.7
	650.2	647.2

The International CGU grouping 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 (2017: £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 of 8.3% (2017: 8.3%) for the UK and 9.2% (2017: 9.7%) for the International CGU grouping.
- 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% (2017: 1.7%).

The headroom for each CGU based on the impairment review is as follows:

£ million	UK	International
Headroom of impairment test based on management assumptions	616.1	15.6

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 for the International CGU which has lower levels of headroom, are shown below:

- The pre-tax discount rate for the International CGU grouping is 9.2%. If the pre-tax discount rate for the International CGU were to be increased by 0.5% from 9.2% to 9.7% then there would be no impairment charge. An increase to the pre-tax discount rate from 9.2% to 10.1% 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 0.7% would result in no headroom.
- If profitability over the five-year forecast period were to be reduced by 7.4% in the International CGU this would result in no headroom.

14. OTHER INTANGIBLE ASSETS

£ million	Customer relationships	Customer contracts	Total
Cost			
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
Acquired on acquisition of subsidiary	0.7	–	0.7
Disposals	(0.2)	(1.6)	(1.8)
Exchange differences	0.4	–	0.4
At 29 December 2018	**89.0**	**–**	**89.0**
Accumulated amortisation and impairment			
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)
Charge for the period	(0.4)	–	(0.4)
Disposals	0.2	1.6	1.8
Exchange differences	(0.3)	–	(0.3)
At 29 December 2018	**(86.0)**	**–**	**(86.0)**
Carrying amount			
At 29 December 2018	**3.0**	**–**	**3.0**
At 30 December 2017	2.6	–	2.6

15. PROPERTY, PLANT AND EQUIPMENT

£ million	Land and buildings	Plant and machinery	Fixtures and equipment	Total
Cost				
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
Additions	41.8	63.3	14.0	119.1
Acquisition of subsidiary	8.1	0.7	2.3	11.1
Disposals	(0.3)	(7.1)	(1.5)	(8.9)
Disposal of subsidiary	(3.8)	(2.7)	(0.4)	(6.9)
Reclassifications	–	(6.9)	–	(6.9)
Exchange differences	2.5	2.2	0.3	5.0
At 29 December 2018	**248.5**	**486.6**	**89.7**	**824.8**
Accumulated depreciation and impairment				
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)
Charge for the period	(5.9)	(27.9)	(6.1)	(39.9)
Impairment	–	(2.1)	(1.4)	(3.5)
Disposals	0.3	6.5	1.5	8.3
Disposal of subsidiary	3.6	2.7	0.4	6.7
Reclassifications	–	6.9	–	6.9
Exchange differences	(0.5)	(0.9)	(0.2)	(1.6)
At 29 December 2018	**(109.5)**	**(233.9)**	**(54.5)**	**(397.9)**
Carrying amount				
At 29 December 2018	**139.0**	**252.7**	**35.2**	**426.9**
At 30 December 2017	93.2	218.0	26.3	337.5

The carrying value of the Group's plant and machinery includes an amount of £4.5 million (2017: £3.7 million) in respect of assets held under finance leases.

At 29 December 2018, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £13.2 million (2017: £7.6 million).

The carrying value of the Group's property, plant and equipment includes an amount of £75.2 million (2017: £23.1 million) in respect of assets under the course of construction for the Group Board's development projects. In addition, there is a total of £8.3 million (2017: £nil) of other assets that are under the course of construction.

During 2018, the Group has impaired £2.1 million (2017: £nil) of plant and machinery and £1.4 million (2017: £nil) of fixtures and equipment. These impairments are included within 'Other administrative costs' as 'Other items' (Note 7). The impairments were all in the UK sector. The £2.1 million (2017: £nil) impairment of plant and machinery arose from site restructurings which resulted in redundant, non-moveable, specialist assets which have been assessed as having £nil value in use and are not saleable due to their specialist nature. The £1.4m (2017: £nil) impairment of fixtures and equipment arose from fully impairing the assets of a subsidiary which is expected to generate operating losses for the foreseeable future. The impairments were determined by comparing the carrying values of the assets with their recoverable amount being the higher of the asset's fair value less costs of disposal and its value in use.

During 2018 and 2017, reclassifications have been made to align assets to their correct classifications.

16. 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.

Haydens Bakery Limited, a subsidiary which was acquired during the period (Note 31), has a different accounting reference date to the Group, being 31 March. Included in these Consolidated Financial Statements are the results for 6 September 2018 to 29 December 2018 and these results will be included in Haydens Bakery Limited's Financial Statements to 31 March 2019.

This subsidiary has a different accounting date to the Group due to the acquisition being completed relatively close to the Group's period end.

17. INTERESTS IN ASSOCIATES

Details of the associated undertakings of the Group at 29 December 2018 were as follows:

			Proportion of Ordinary shares		
	Place of registration and operation	Principal activity	**2018**	2017	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 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
Share of profit after tax	0.4
Exchange differences	0.8
Dividend payment	(0.7)
At 29 December 2018	**12.5**

18. OTHER INVESTMENTS

£ million	Non-listed investments held at cost
At 29 December 2018	**0.1**
At 30 December 2017	0.1

19. INVENTORIES

£ million	**29 December 2018**	30 December 2017
Raw materials and packaging	**54.6**	47.4
Work-in-progress	**1.8**	1.7
Finished goods	**6.4**	5.7
	62.8	54.8

20. TRADE AND OTHER RECEIVABLES

£ million	29 December 2018	30 December 2017
Amounts receivable from trade customers	115.3	120.8
Allowance for doubtful debts	(2.0)	(1.5)
Net amounts receivable from trade customers	113.3	119.3
Other receivables	18.8	19.1
Prepayments	10.6	9.5
	142.7	147.9

The average credit period taken on sales of goods is 21 days (2017: 23 days). An allowance has been made for estimated irrecoverable amounts from the sale of goods of £2.0 million (2017: £1.5 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	29 December 2018	30 December 2017
Not past due	99.7	102.5
Past due by 1 – 30 days	11.3	14.2
Past due by 31 – 60 days	2.0	1.3
Past due by 61 – 90 days	0.3	0.6
Past due by more than 90 days	–	0.7
	113.3	119.3

There was no impact from trade receivables renegotiated in 2018 that would otherwise have been past due or impaired (2017: no impact).

The major customers of the Group, representing 76.2% (2017: 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	29 December 2018	30 December 2017
Balance at beginning of the period	(1.5)	(1.1)
Allowances recognised against receivables	(0.7)	(1.3)
Amounts written off as uncollectible during the period	–	0.4
Amounts recovered during the period	0.2	0.3
Allowance reversed	0.1	0.2
Recognised from acquisition of subsidiary	(0.1)	–
Balance at end of the period	(2.0)	(1.5)

21. CASH AND CASH EQUIVALENTS

£ million	29 December 2018	30 December 2017
Cash and cash equivalents	12.4	20.9

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.

22. BORROWINGS

The interest rates and currency profile of the Group's borrowings at 29 December 2018 were as follows:

Facility	Currency	Facility amount £ million	Amount drawn down at year end £ million	Interest rate	Non-utilisation fee	Maturity date
Term Loan A	GBP	210.0	210.0	Libor plus a margin of 2.10%	N/A	June 2021
Term Loan B	GBP	37.5	37.5	Libor plus a margin of 3.85%	N/A	June 2024
Revolving Credit Facility (RCF)	GBP	200.0	68.7[1]	Libor plus a margin of 2.10%	0.74%	June 2021

1 A further £5.8 million has been drawn down in RCF ancillary facilities at the year end.

GROUP BANK FACILITIES

The Group's total banking facilities amount to £447.5 million (2017: £447.5 million) comprising (i) a £247.5 million term loan (2017: £247.5 million term loan), split £210.0 million and £37.5 million maturing in June 2021 and June 2024 respectively and (ii) £200.0 million Revolving Credit Facilities ('RCF') (2017: £200.0 million RCF), which includes an overdraft and money market facility of £16.5 million (2017: £16.5 million) and further ancillary facilities of £8.7 million (2017: £8.7 million). In addition to this, the Group put in place an uncommitted multi-currency money market loan facility amounting to €35.0 million in 2018. No amount was drawn under this uncommitted facility at the period end.

The bank facilities are unsecured.

RECEIVABLES SECURITISATION FACILITY

The Group had a £50.0 million receivables securitisation facility in place until February 2018 when it matured and the facility was not renewed.

£ million	29 December 2018	30 December 2017
Bank overdrafts	3.7	–
Bank loans	309.8	283.6
	313.5	283.6
Borrowings repayable as follows:		
On demand or within one year	5.0	1.5
In the second year	–	–
In the third to fifth years inclusive	271.9	245.6
Over five years	36.6	36.5
	313.5	283.6
Analysed as:		
Amount due for settlement within 12 months (shown within current liabilities)	5.0	1.5
Amount due for settlement after 12 months	308.5	282.1
	313.5	283.6

As at 29 December 2018 and 30 December 2017, all of the Group's borrowings were denominated in Sterling.

	29 December 2018 %	30 December 2017 %
The weighted average interest rates paid were as follows:		
Senior Secured Notes, bank loans and overdrafts	3.20	2.94

The Group has a £75.0 million notional principal interest rate cap that matures in October 2019. Interest on the Group's term loan 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	29 December 2018	30 December 2017
Fair value of the Group's borrowings	316.2	287.5

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 and finance lease liabilities, and is as follows:

£ million	29 December 2018	30 December 2017
Analysis of net debt		
Cash and cash equivalents	12.4	20.9
Borrowings	(3.7)	–
Interest accrual	(1.3)	(1.5)
Finance leases	(1.6)	(0.8)
Debt due within one year	(6.6)	(2.3)
Borrowings	(312.5)	(287.5)
Unamortised fees	4.0	5.4
Finance leases	(3.9)	(3.1)
Debt due after one year	(312.4)	(285.2)
Group statutory net debt	(306.6)	(266.6)

23. DERIVATIVE FINANCIAL INSTRUMENTS

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

£ million	29 December 2018	30 December 2017
Interest rate contracts	–	0.1
Foreign currency contracts	0.2	–
Included in non-current assets	**0.2**	0.1
Interest rate contracts	0.1	–
Foreign currency contracts	1.8	1.6
Included in current assets	**1.9**	1.6
Foreign currency contracts	–	(0.6)
Included in current liabilities	**–**	(0.6)
Foreign currency contracts	–	(0.2)
Included in non-current liabilities	**–**	(0.2)
Total	**2.1**	0.9

Further details of derivative financial instruments are provided in Note 28.

24. 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	IAS23 capitalised interest	Fair value gains	Intangibles	Provisions	Impairment losses	Retirement benefit obligations	Share scheme	Overseas tax losses and accrued interest	Total
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)
(Charge)/credit to income – continuing operations	(6.6)	(0.3)	(0.2)	–	0.3	–	–	0.3	14.1	7.6
Arising on acquisition	–	–	–	(0.1)	–	–	–	–	–	(0.1)
Exchange differences	(0.4)	–	–	–	–	–	–	–	0.8	0.4
Credit/(charge) to equity	–	–	–	–	–	–	1.0	(0.2)	–	0.8
At 29 December 2018	**(23.5)**	**(0.3)**	**(0.4)**	**(0.1)**	**1.0**	**–**	**0.1**	**0.4**	**18.1**	**(4.7)**

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	29 December 2018	30 December 2017
Deferred tax asset	19.6	3.2
Deferred tax liabilities	(24.3)	(16.6)
	(4.7)	(13.4)

At the statement of financial position date, the Group had unused tax losses of £29.5 million (2017: £45.1 million) available for offset against future taxable profits. Of these losses, £8.1 million will expire after five years if unused, the balance can be carried forward without time limit. 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.

25. OBLIGATIONS UNDER FINANCE LEASES

£ million	Minimum lease payments 29 December 2018	Minimum lease payments 30 December 2017	Present value of minimum lease payments 29 December 2018	Present value of minimum lease payments 30 December 2017
Amounts payable under finance leases:				
Within one year	**1.7**	0.9	**1.6**	0.8
In the second to fifth years inclusive	**3.7**	2.5	**3.5**	2.3
Over five years	**0.4**	0.9	**0.4**	0.8
	5.8	4.3	**5.5**	3.9
Less: future finance charges	**(0.3)**	(0.4)		
Present value of lease obligations	**5.5**	3.9	**5.5**	3.9
Analysed as:				
Amount due for settlement within 12 months (shown within current liabilities)			**1.6**	0.8
Amount due for settlement after 12 months			**3.9**	3.1
			5.5	3.9

The weighted average lease term outstanding is 4.3 years (2017: 5.6 years). For 2018, the weighted average effective borrowing rate was 3.80% (2017: 4.45%). 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.

26. TRADE AND OTHER PAYABLES

£ million	29 December 2018	30 December 2017
Trade payables	**232.6**	209.0
Social security and other taxation	**2.0**	2.2
Other payables	**23.5**	29.2
Accruals	**133.6**	153.4
	391.7	393.8
Less: amounts due after one year		
Other payables	**(0.4)**	(0.4)
Trade and other payables due within one year	**391.3**	393.4

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 55 days (2017: 57 days). No interest is incurred against trade payables.

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

27. PROVISIONS

£ million	Onerous leases	Dilapidation provisions	Total
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
At 30 December 2017	1.2	16.5	17.7
Utilisation of provision	(1.0)	(0.8)	(1.8)
Additional provision in the year	2.2	0.2	2.4
On acquisition of subsidiary	–	0.6	0.6
On disposal of subsidiary	–	(1.0)	(1.0)
Unwinding of discount	–	0.4	0.4
At 29 December 2018	**2.4**	**15.9**	**18.3**
Included in current liabilities	**0.4**	**2.9**	**3.3**
Included in non-current liabilities	**2.0**	**13.0**	**15.0**

Onerous lease provisions brought forward relate to two vacant properties where leases end in 2019 and 2020. A further provision has also been made in the period for a site closed in a previous financial period, this site is expected to be sublet by the end of 2019. In addition, an onerous lease provision of £1.7 million was made in the period in respect of the Group's non-core UK fast casual restaurant business which has three property leases, one of which expires in 2030 with the others expiring in 2031. As this business has been loss-making since incorporation, and this is expected to continue for the foreseeable future, the leases are considered to be onerous. The provision has been calculated as the discounted total expected costs for occupying the property (including rent, rates and service charges) through to December 2021 on the basis that this business will not be loss-making by that time. 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, which ranges from two to 32 years.

28. 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 22, 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	**29 December 2018**	30 December 2017
Debt	**319.0**	287.5
Cash and cash equivalents	**(12.4)**	(20.9)
Net debt	**306.6**	266.6
Equity	**569.4**	510.1
Net debt to net debt plus equity	**35.0%**	34.3%

Debt is defined as long and short-term borrowings, as disclosed in Note 22 and finance leases payable in Note 25.

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	29 December 2018	30 December 2017
Financial assets		
Fair value through profit and loss:		
Derivative financial instruments	2.1	1.7
Loans and receivables at amortised cost:		
Trade receivables	113.3	119.3
Other receivables	18.8	19.1
Cash and cash equivalents	12.4	20.9
	146.6	161.0

£ million	29 December 2018	30 December 2017
Financial liabilities		
Fair value through profit and loss:		
Derivative financial instruments	–	0.8
Other payables	–	4.2
Other financial liabilities at amortised cost:		
Trade payables	232.6	209.0
Other payables	23.5	25.0
Accruals	133.6	153.4
Borrowings	313.5	283.6
Finance leases	5.5	3.9
	708.7	679.9

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

The fair value of other financial liabilities at amortised cost approximates to their carrying value. The trade and other payables approximate to their fair value due to the short-term nature of the payables. The 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.

28. 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; and
- Forward foreign exchange contracts to hedge the exchange rate risk arising on 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 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 29 December 2018, the Euro strengthened against Sterling by 1.4%, with the closing rate at €1.1093 compared with €1.1249 at the prior period end. The average rate for the 52-week period to 29 December 2018 was €1.1303, a 0.9% strengthening of the Euro versus the prior period.

In the same period, the US dollar strengthened against Sterling by 6.1%, with the closing rate at $1.2696 compared with $1.3522 at the prior period end. The average rate for the 52-week period to 29 December 2018 was $1.3343, a 3.5% weakening of the US dollar versus the prior period.

The net foreign exchange impact on profit from transactions is a gain of £0.2 million (2017: loss of £2.9 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 in currency		Profit or (loss) 10% weakening in currency	
£ million	**29 December 2018**	30 December 2017	**29 December 2018**	30 December 2017
Euro	**(7.5)**	(7.9)	**9.2**	9.7
USD	**(1.3)**	(2.4)	**1.6**	2.9
HKD	**(0.1)**	(0.1)	**0.2**	0.2
RMB	**(0.6)**	(0.4)	**0.7**	0.5

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 purchase transactions and minimise the exposure generated.

The following table details Sterling foreign currency contracts outstanding as at 29 December 2018:

	Foreign currency (million)		Average exchange rate		Contract value (£ million)		Fair value (£ million)	
Outstanding contracts	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Net Euros:								
3 months or less	**30.0**	33.2	**1.11**	1.14	**27.0**	29.0	**0.2**	0.4
3 to 6 months	**39.6**	32.9	**1.10**	1.14	**35.4**	28.8	**0.6**	0.5
6 to 12 months	**39.1**	38.4	**1.11**	1.14	**35.1**	33.6	**0.5**	0.7
Over 12 months	**12.2**	20.9	**1.11**	1.10	**10.9**	19.0	**0.2**	(0.2)
Net US dollars:								
3 months or less	**6.0**	23.3	**1.33**	1.32	**4.5**	17.5	**0.2**	(0.3)
3 to 6 months	**7.2**	9.4	**1.31**	1.32	**5.5**	7.1	**0.1**	(0.2)
6 to 12 months	**10.0**	3.6	**1.32**	1.34	**7.6**	2.7	**0.2**	(0.1)
Over 12 months	**0.6**	0.4	**1.30**	1.36	**0.4**	0.3	**–**	–
					126.4	138.0	**2.0**	0.8

The following table details the US dollar foreign currency contracts outstanding as at 29 December 2018:

	Foreign currency (million)		Average exchange rate		Contract value (US$ million)		Fair value (US$ million)		Fair value (£ million)	
Outstanding contracts	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Net Canadian dollars:										
Less than 3 months	**–**	1.4	**–**	1.29	**–**	1.1	**–**	–	**–**	–
Net Euros:										
Less than 3 months	**–**	–	**1.22**	–	**–**	–	**–**	–	**–**	–
					–	1.1	**–**	–	**–**	–

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, 24.0% (2017: 26.1%) of the Group's borrowings were covered by an interest rate cap. 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	**(Loss)/profit 29 December 2018**	(Loss)/profit 30 December 2017
Effects of 100 basis points increase in interest rate	**(2.4)**	(2.3)
Effects of 100 basis points decrease in interest rate	**3.0**	2.9

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

28. 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 contracts outstanding as at 29 December 2018:

	Average contract fixed interest rate		Notional principal amount		Fair value	
	2018 %	2017 %	**2018 £ million**	2017 £ million	**2018 £ million**	2017 £ million
Interest rate caps						
6 to 12 months	**0.75**	–	**75.0**	–	**0.1**	–
Over 12 months	**–**	0.75	**–**	75.0	**–**	0.1
			75.0	75.0	**0.1**	0.1

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 76% (2017: 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.

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.

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 committed bank facilities. The Group's current bank facilities comprise a £247.5 million term loan (2017: £247.5 million) and a £200.0 million RCF facility (2017: £200.0 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. In addition to these committed facilities, the Group has access to an uncommitted multi-currency money market line facility amounting to £31.6 million (€35 million) (2017: £nil).

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 12 months forward. The Group also manages any local currency exposure in line with agreed contracts.

LIQUIDITY RISK MANAGEMENT

Liquidity risk refers to the risk that the Group may not be able to fund the day-to-day running of the Group. The Group manages liquidity risk by monitoring actual and forecast cash flows to ensure that adequate liquidity is available to meet the maturity profiles of financial liabilities. The Group also monitors the drawdown of borrowings against the available banking facilities and reviews the level of reserves. Liquidity risk management ensures sufficient funding is available for the Group's day-to-day needs. The Group maintains 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	29 December 2018	30 December 2017
Due within one year:		
Trade payables	232.6	209.0
Other payables	23.1	28.8
Accruals	133.6	153.4
Derivative financial instruments	–	0.6
Borrowings	3.7	–
Finance leases	1.6	0.8
Interest on borrowings	11.2	10.0
Total due within one year	405.8	402.6
In the second to fifth years inclusive:		
Other payables	0.4	0.4
Derivative financial instruments	–	0.2
Borrowings	275.0	250.0
Finance leases	3.5	2.3
Interest on borrowings	19.3	23.8
Total due in the second to fifth years	298.2	276.7
Due after five years:		
Borrowings	37.5	37.5
Finance leases	0.4	0.8
Interest on borrowings	0.9	2.7
Total due after five years	38.8	41.0

The weighted average interest rates for the Group's borrowings are found in Note 22 and in Note 25 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	2018	2017
Finance costs		
On financial liabilities held at amortised cost	(13.2)	(35.0)
Changes in fair values recognised in Other gains and (losses)		
On financial liabilities held at fair value through profit and loss	5.3	(19.3)

29. SHARE CAPITAL AND RESERVES

SHARE CAPITAL

£ million	29 December 2018	30 December 2017
Issued and fully paid:		
579,425,585 (2017: 579,425,585) Ordinary shares of £0.02 each	11.6	11.6

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

On 6 September 2018, the Company declared an interim dividend for the period ended 29 December 2018 of 2 pence per share to each of the Ordinary shareholders totalling £11,588,512 which was paid on 5 October 2018. A final dividend of 4 pence per share has been proposed for approval at the Annual General Meeting on 23 May 2019 and will be payable on 29 May 2019 to Ordinary shareholders on the register at 3 May 2019.

No dividends were declared for the period ended 30 December 2017.

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	
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)
Balance at 30 December 2017	366.1
Cancellation of share premium account	(366.1)
Balance at 29 December 2018	–

On 27 March 2018, the Company cancelled its share premium account of £366.1 million, resulting in a corresponding increase in retained earnings.

MERGER RESERVE

In 2017, the merger reserve was debited by £185.8 million as a result of the acquisition of Bakkavor Holdings Limited and the elimination of the historical capital reserve which related to the previous group structure.

In 2007, a corporate reorganisation was completed to establish Bakkavor Holdings 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.

30. DISPOSALS

2018

DISPOSAL OF SUBSIDIARY

On 2 July 2018, the Group disposed of its interest in Anglia Crown Limited. The net assets of Anglia Crown Limited at the date of disposal were as follows:

£ million	2 July 2018
Property, plant and equipment	0.2
Deferred tax asset	0.1
Inventories	0.9
Trade receivables	1.9
Other debtors	0.1
Prepayments	0.6
Trade payables	(2.0)
Accruals	(0.3)
Provisions	(1.0)
Net assets	0.5
Disposal costs	0.2
Loss on disposal	(4.6)
Total consideration	(3.9)
Satisfied by:	
Cash and cash equivalents	(3.9)
Deferred consideration	0.7
	(3.2)
Net cash outflow arising on disposal:	
Consideration received in cash and cash equivalents	–
Less: cash and cash equivalent disposed of	(3.2)
	(3.2)

The transaction has resulted in a loss on disposal of £4.6 million being recorded in the consolidated income statement as an Other item.

The deferred consideration will be settled in cash by the Group on 2 July 2020.

2017

There were no disposals in the period.

31. ACQUISITIONS

2018

On 6 September 2018, the Group completed the acquisition of 100% of the issued share capital of Haydens Bakery Limited from Real Good Food plc for a total consideration of £11.4 million. The consideration comprised £0.5 million in cash and assumed borrowings of £8.5 million that were repaid immediately, and £2.4 million of existing finance leases.

The primary reason for the acquisition was to increase the breadth and depth of the Group's desserts range, extending the offering in in-store bakery.

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

£ million	6 September 2018
Other intangible assets	0.7
Property, plant and equipment	11.1
Inventories	1.5
Trade and other receivables	4.0
Cash and cash equivalents	0.5
Trade and other payables	(4.4)
Obligations under finance leases	(2.4)
Provisions	(0.6)
Deferred tax liabilities	(0.1)
Net identifiable assets acquired	**10.3**
Gain on bargain purchase	(1.3)
Total cash consideration for share capital and assumed borrowings repaid	**9.0**

Net cash outflow arising on acquisition was:

£ million	6 September 2018
Cash consideration for share capital	0.5
Immediate repayment of borrowings	8.5
	9.0
Cash and cash equivalents acquired on acquisition	(0.5)
Cash outflow on acquisition of business	**8.5**

The Group was able to negotiate a purchase price within the seller's required range, which led to a gain on bargain purchase of £1.3 million.

Acquisition-related costs (included in Other administrative expenses) amount to £0.3 million.

The results of Haydens Bakery Limited have been consolidated in the Group's consolidated income statement from 6 September 2018 and contributed £12.4 million of revenue and a loss of £0.2 million to the Group's profit for the period.

If the acquisition of Haydens Bakery Limited had been completed on the first day of the financial period, Group revenues for the period would have been £1,877.1 million and Group profit would have been £65.0 million.

2017

There were no acquisitions in the period.

32. NOTES TO THE STATEMENT OF CASH FLOWS

£ million	2018	2017
Operating profit	85.6	96.2
Adjustments for:		
Share of results of associates	(0.4)	(0.6)
Depreciation of property, plant and equipment	39.9	39.6
Amortisation of intangible assets	0.4	0.7
Loss on disposal of property, plant and equipment	0.4	0.5
Loss on disposal of subsidiaries (Note 30)	4.6	–
Gain on bargain purchase (Note 31)	(1.3)	–
Impairment of assets	3.5	–
Share scheme charges	1.5	0.8
Net retirement benefits charge less contributions	(2.9)	(2.9)
Operating cash flows before movements in working capital	131.3	134.3
(Increase)/decrease in inventories	(7.4)	4.4
Decrease in receivables	5.8	41.7
Decrease in payables	(3.3)	(39.2)
Increase in provisions	0.5	2.9
Cash generated by operations	126.9	144.1
Income taxes paid	(14.7)	(11.9)
Interest paid	(13.1)	(38.8)
Net cash from operating activities	99.1	93.4

ANALYSIS OF CHANGES IN NET DEBT

£ million	31 December 2017	Cash flow	Exchange movements	Other non-cash movements	29 December 2018
Borrowings	(283.6)	(28.7)	–	(1.2)	(313.5)
Finance leases	(3.9)	1.1	–	(2.7)	(5.5)
Total liabilities from financing activities	(287.5)	(27.6)	–	(3.9)	(319.0)
Cash and cash equivalents	20.9	(8.6)	0.1	–	12.4
Net debt*	(266.6)	(36.2)	0.1	(3.9)	(306.6)

* Includes accrued interest at 29 December 2018 of £1.3 million (2017: £1.5 million) and prepaid bank fees of £4.0 million (2017: £5.4 million).

33. 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 Group is currently subject to a National Living Wage enquiry, which has been ongoing since July 2017. Whilst the Directors consider that there is a possible financial impact from this enquiry, given the stage of the enquiry it is not possible to quantify the potential financial impact and the outcome 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	29 December 2018	30 December 2017
Letters of Credit	2.9	2.5

As at 29 December 2018, the Group had purchase commitments for the next 12 months to guarantee supply and price of raw materials of £129.3 million (2017: £96.5 million).

34. OPERATING LEASE ARRANGEMENTS

THE GROUP AS LESSEE

£ million	2018	2017
Continuing operations		
Minimum lease payments under operating leases recognised as an expense in the period	12.0	12.2

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	29 December 2018	30 December 2017	29 December 2018	30 December 2017
Operating leases which expire:				
Within one year	6.6	5.4	2.7	2.8
Within two to five years	36.2	38.7	2.9	4.6
After five years	48.0	47.3	0.1	0.1
	90.8	91.4	5.7	7.5

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

35. 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 10 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 were as follows:

£ million	Number of share options 29 December 2018	Number of share options 30 December 2017	Weighted average exercise price 29 December 2018	Weighted average exercise price 30 December 2017
Outstanding at the beginning of the period	**9,178,785**	–	**£0.68**	–
Granted during the period	**2,842,686**	9,178,785	**–**	£0.68
Forfeited during the period	**(297,374)**	–	**£0.47**	–
Outstanding at the end of the period	**11,724,097**	9,178,785	**£0.52**	£0.68
Exercisable at the end of the period	**–**	–	**–**	–

The options outstanding at 29 December 2018 had a weighted average exercise price of £0.52 (2017: £0.68), and a weighted average remaining contractual life of 8.7 years (2017: 9.4 years).

In 2018, 2,842,686 options were granted on 9 April 2018. The options had the following performance conditions for vesting:

1. 216,976 vest provided that the individual is an employee in April 2021.
2. Provided that the first condition is met, 12.5% of the remaining options vest provided the Group's TSR national rank versus a bespoke peer group of 34 companies at 26 December 2020 is at the median level, this increases up to 50% of the remaining options based on a sliding scale if the Group's TSR rank at 26 December 2020 is at the upper quartile level.
3. Provided that the first condition is met, 12.5% of the remaining options vest provided the Group's Adjusted EPS for the 2020 financial year is 16.5 pence with up to a further 50% of the remaining options vesting on a sliding scale if the Group's Adjusted EPS is between 16.5 pence and 18.6 pence for that year.

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 £175.0 million with up to a further 25% vesting on a sliding scale if Group Adjusted EBITDA is between £175.0 million and £190.0 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 2018 is £16.7 million (2017: £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	8.5	£1.44	38.2%	1.3	0.87%	2.75%	£0.65
20 October 2017	600,000	8.8	£1.44	37.5%	1.3	0.47%	2.75%	£1.34
20 October 2017	400,000	8.8	£1.44	37.7%	3.3	0.56%	2.75%	£1.26
9 April 2018	1,312,855	9.3	£1.78	24.5%	2.3	0.91%	0.00%	£0.94
9 April 2018	1,312,855	9.3	£1.78	23.5%	2.3	1.17%	0.00%	£1.78
9 April 2018	216,976	9.3	£1.78	N/A	2.3	N/A	0.00%	£1.78

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. Bakkavor Group plc listed in November 2017 and as such this information is not available. Instead, the expected volatility has been based on the average volatility of a peer group of companies, which are of a similar size and operate in a similar market to Bakkavor Group plc.

The Group recognised total expenses of £1.5 million (2017: £0.8 million) related to equity-settled share-based payment transactions in the period.

36. 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	2018	2017
UK defined contribution scheme net charge	8.3	6.1
Overseas defined contribution scheme net charge	–	–
UK defined benefit scheme net charge	3.2[1]	1.0
Total charge	11.5	7.1

1 This includes a charge of £2.6 million in respect of Guaranteed Minimum Pension ('GMP') equalisation and has been shown as an Other item within Other administrative costs in the consolidated income statement.

DEFINED CONTRIBUTION SCHEMES

The total cost charged to income of £8.3 million (2017: £6.1 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 £1.6 million at the period end for the defined contribution schemes gross contributions (2017: £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 29 December 2018 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:

	29 December 2018	30 December 2017
Future pension increases (majority of liabilities)	3.10%	3.05%
Discount rate applied to Scheme liabilities	2.65%	2.40%
Inflation assumption (CPI)	2.25%	2.20%

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 2018	Males' expected future lifetime 2017	Females' expected future lifetime 2018	Females' expected future lifetime 2017
Member aged 45	41.8	41.7	44.2	43.9
Member aged 65	22.3	22.3	24.4	24.4

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

Assumption	Change in assumption	Approximate impact on scheme liabilities
Discount rate	Increase/decrease by 1.0%	Decrease £45.1 million/increase £61.3 million
Rate of inflation	Increase/decrease by 0.5%	Increase £19.4 million/decrease £19.7 million
Life expectancy	Members assumed to be one year younger than their actual age	Increase £9.2 million

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

£ million	2018	2017
Net interest on net defined benefit asset/liability	(0.2)	0.2
Administration costs incurred during the period	0.8	0.8
GMP equalisation	2.6	–
Total charge	3.2	1.0

All of the charges for each period presented have been included in total administrative expenses. The actuarial loss of £6.3 million (2017: £12.3 million gain) has been reported in other comprehensive income.

The actual return on Scheme assets was a decrease of £11.0 million (2017: £23.5 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	29 December 2018	30 December 2017
Fair value of Scheme assets	241.4	265.8
Present value of defined benefit obligations	(241.9)	(260.6)
Scheme (deficit)/surplus	(0.5)	5.2
Related deferred taxation asset/(liability) (Note 24)	0.1	(0.9)
	(0.4)	4.3

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 in 2017 was 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	29 December 2018	30 December 2017
Opening balance	(260.6)	(262.6)
Interest cost on the DBO	(6.0)	(6.5)
Benefits paid from scheme assets	16.4	13.4
Actuarial gain – demographic assumptions	–	1.0
Actuarial gain/(loss) – financial assumptions	10.9	(5.9)
Past service cost – plan amendments	(2.6)	–
Closing balance	(241.9)	(260.6)

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

£ million	29 December 2018	30 December 2017
Opening balance	265.8	252.6
Interest income on scheme assets	6.2	6.3
Return on scheme assets (less)/greater than discount rate	(17.2)	17.2
Contributions from the sponsoring Companies	3.8	3.9
Benefits paid from scheme assets	(16.4)	(13.4)
Administrative costs paid	(0.8)	(0.8)
Closing balance	241.4	265.8

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

	Fair value of assets	
£ million	29 December 2018	30 December 2017
Structured UK equity	1.8	6.6
Overseas equity	29.4	38.1
High yield bonds	10.0	18.9
Corporate bonds	13.6	12.8
Index linked government bonds	125.4	134.1
Cash	22.9	29.8
Other	38.3	25.5
	241.4	265.8

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.

36. RETIREMENT BENEFIT SCHEMES (CONTINUED)

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 four 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, opportunistic allocation of assets and the 'structured equity' component of the strategy increases the notional allocation to return-seeking assets to 95%. 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 20 years.

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 2018, a small augmentation of c. £5,000 was made in respect of this benefit (2017: £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. £3.8 million was paid in the period to 29 December 2018 (2017: £3.9 million).

The actual amount of employer contributions expected to be paid to the Scheme during 2019 is £2.8 million.

37. 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	2018	2017
Short-term employee benefits	4.5	9.3
Post-employment benefits	0.1	–
Share-based payments[1]	0.9	0.4
	5.5	9.7

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 35.

38. EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

There have been no significant events after the statement of financial position date to report.

39. CONTROLLING PARTY

These Financial Statements are the largest consolidated Group Financial Statements in which the Company has been included.

At 29 December 2018, 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.

40. 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 ongoing trading activities.

LIKE-FOR-LIKE (LFL) REVENUE

The Group defines LFL revenue as revenue from continuing operations adjusted for the revenue generated from businesses closed or sold in the current and prior year, revenue generated from businesses acquired in the current period and the effect of foreign currency movements. The Directors believe LFL revenue is a key metric of the Group's revenue growth trend as it allows 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	2018	2017	Change %
Statutory revenue	1,855.2	1,814.8	2.2%
Revenue from acquisitions	(12.4)	–	
Revenue from closed and sold businesses	(6.2)	(30.2)	
Effect of currency movements	5.4	–	
Like-for-like revenue	1,842.0	1,784.6	3.2%

The following table provides the information used to calculate LFL revenue for the UK segment.

£ million	2018	2017	Change %
Statutory revenue	1,653.6	1,636.3	1.1%
Revenue from acquisitions	(12.4)	–	
Revenue from closed and sold businesses	(6.2)	(30.2)	
Like-for-like revenue	1,635.0	1,606.1	1.8%

The following table provides the information used to calculate LFL revenue for the International segment.

£ million	2018	2017	Change %
Statutory revenue	201.6	178.5	12.9%
Effect of currency movements	5.4	–	
Like-for-like revenue	207.0	178.5	16.0%

40. ALTERNATIVE PERFORMANCE MEASURES (CONTINUED)

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 (non-cash) and those additional charges or credits that are considered significant or one-off in nature.

The following table sets out a reconciliation from the Group's Operating profit to Adjusted EBITDA.

£ million	2018	2017
Operating profit	85.6	96.2
Depreciation	39.9	39.6
Amortisation	0.4	0.7
EBITDA	125.9	136.5
Other items (Note 7)	21.5	15.4
Loss on disposal of property, plant and equipment	0.4	0.5
Share scheme charges	1.5	0.8
Loss on disposal of subsidiary (Note 30)	4.6	–
Share of results of associates after tax	(0.4)	(0.6)
Adjusted EBITDA	153.5	152.6

Adjusted EBITDA by segment is reconciled to operating profit in Note 4.

OPERATIONAL NET DEBT AND LEVERAGE

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	29 December 2018	30 December 2017
Group statutory net debt	(306.6)	(266.6)
Unamortised fees	(4.0)	(5.4)
Interest accrual	1.3	1.5
Group operational net debt	(309.3)	(270.5)
Adjusted EBITDA	153.5	152.6
Leverage (Operational net debt/Adjusted EBITDA)	2.0	1.8

FREE CASH FLOW

The Group defines free cash flow as the amount of cash generated by the Group after meeting all of its obligations for interest, tax and pensions, and after purchases of property, plant and equipment (excluding development projects), but before payments of refinancing fees. 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	2018	2017
Net cash generated from operating activities	99.1	93.4
Dividends received from associates	0.7	0.7
Purchases of property, plant and equipment	(112.7)	(79.1)
Purchases of property, plant and equipment relating to development projects	52.1	23.1
Proceeds on disposal of property, plant and equipment	–	2.5
Cash impact of exceptional items	15.9	14.2
Refinancing costs	–	16.3
	55.1	71.1

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	2018	2017
Profit attributable to equity shareholders of the Company	67.2	31.0
Other items (Note 7)	21.5	15.4
Loss on disposal of subsidiary (Note 30)	4.6	–
Finance costs (Note 9)	–	13.2
Release of other payable (Note 10)	(4.2)	–
Change in fair value of call option (Note 10)	–	17.2
Tax on the above items	(4.2)	(6.3)
Adjusted earnings used for the adjusted earnings per share calculation	84.9	70.5
Add back: Tax on underlying activities	14.9	14.3
Adjusted profit before tax	99.8	84.8
Effective tax rate on underlying activities (Tax on underlying activities/Adjusted profit before tax)	14.9%	16.9%

NUMBER OF SHARES

'000	2018	2017
Weighted average number of Ordinary shares	579,426	530,738
Effect of dilutive Ordinary shares	2,993	857
Weighted average number of diluted Ordinary shares	582,419	531,595

	2018	2017
Continuing operations		
Adjusted basic earnings per share	14.7p	13.3p
Adjusted diluted earnings per share	14.6p	13.3p

40. ALTERNATIVE PERFORMANCE MEASURES (CONTINUED)

RETURN ON INVESTED CAPITAL (ROIC)

The Group defines ROIC as Adjusted operating profit after tax divided by the average invested capital for the year. Adjusted operating profit after tax is defined as operating profit from continuing operations excluding the impact of Other 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 the simple average of invested capital at the beginning of the period and the end of the period.

The Directors believe that ROIC is a useful indicator of the amount returned as a percentage of shareholders' invested capital. The Directors believe that ROIC can 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 out the calculations of adjusted operating profit after tax and invested capital used in the calculation of ROIC.

£ million	2018	2017
Operating profit	85.6	96.2
Other items (Note 7)	21.5	15.4
Loss on disposal of subsidiary (Note 30)	4.6	–
Adjusted operating profit	111.7	111.6
Taxation at the underlying effective rate	(16.6)	(18.9)
Adjusted operating profit after tax	95.1	92.7
Invested capital		
Total assets	1,332.3	1,233.1
Total liabilities	(762.9)	(723.0)
Net debt at period end	306.6	266.6
Derivatives not designated as hedges	(2.1)	(0.9)
Retirement benefit scheme deficit/(surplus)	0.5	(5.2)
Deferred tax (asset)/liability on retirement benefit scheme	(0.1)	0.9
Invested capital	874.3	771.5
Average invested capital for ROIC calculation	822.9	761.2
ROIC (%)	11.6%	12.2%

COMPANY STATEMENT OF FINANCIAL POSITION

29 DECEMBER 2018

£ million	Notes	29 December 2018	30 December 2017
Non-current assets			
Investment in subsidiaries	4	**309.5**	309.5
Current assets			
Cash and cash equivalents		**–**	2.2
Amounts due from other Group companies	6	**79.1**	85.4
Deferred tax assets		**0.4**	0.3
		79.5	87.9
Current liabilities			
Other payables	6	**–**	(0.4)
		–	(0.4)
Net assets		**389.0**	397.0
Equity			
Share capital	7	**11.6**	11.6
Share premium	7	**–**	366.1
Merger reserve	7	**23.8**	23.8
Retained earnings		**353.6**	(4.5)
Total equity		**389.0**	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 profit for the period was £2.3 million (loss for the three-month period ended 30 December 2017 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 5 April 2019. 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 30 DECEMBER 2017 TO 30 DECEMBER 2018

£ million	Share capital	Share premium	Merger reserve	Retained earnings	Total equity
Balance at 28 September 2017	–	–	–	–	**–**
Issue of share capital	11.6	374.1	–	–	**385.7**
Share issue costs (Note 7)	–	(8.0)	–	4.6	**(3.4)**
Recognition of a merger reserve	–	–	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**
Dividends paid (Note 7)	–	–	–	(11.6)	**(11.6)**
Cancellation of share premium account (Note 7)	–	(366.1)	–	366.1	**–**
Credit for share-based payments	–	–	–	1.5	**1.5**
Deferred tax on share schemes	–	–	–	(0.2)	**(0.2)**
Profit for the period	–	–	–	2.3	**2.3**
At 29 December 2018	**11.6**	**–**	**23.8**	**353.6**	**389.0**

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 periods ended 29 December 2018 and 30 December 2017 have been borne by fellow Group company Bakkavor Foods Limited. The Company has no employees and payments to Directors for the periods ended 29 December 2018 and 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 and 29 December 2018	**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.

5. SUBSIDIARIES

As at 29 December 2018, 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) Limited[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]	UK	Holding company	100%
Bakkavor Dormant Holdings Limited[1]	UK	Non-trading	100%
Geest Corporation Inc[17]	USA	Dormant holding company	100%
Bakkavor Overseas Holdings Limited[1]	UK	Non-trading	100%
BV Foodservice Limited[1]	UK	Non-trading	100%
Bakkavor Foods Limited[1]	UK	Preparation and marketing of fresh prepared foods	100%
Haydens Bakery Limited[1]	UK	Production and manufacture of dessert products	100%

5. SUBSIDIARIES (CONTINUED)

Name	Place of registration and operation	Principal activity	% of voting shares
Bakkavor Pension Trustees Limited[1]	UK	Pension trustee holding company	100%
Bakkavor European Marketing BV[18]	Netherlands	Holding company	100%
NV Bakkavor Belgium BV[19]	Belgium	Non-trading	100%
Bakkavor Fresh Cook Limited[1]	UK	Preparation and marketing of fresh prepared foods	100%
English Village Salads Limited[1]	UK	Non-trading	100%
Bakkavor Australia Pty Limited[20]	Australia	Holding company	100%
BV Restaurant Group Limited[1]	UK	Production and distribution of fresh prepared foods	100%
Bakkavor Iberica S.L.U.[21]	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[22]	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, USA.

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 this company is Rong Tai Road, Cross-Striats Science & Technology Industry Development Park, Wenjiang District, Chengdu, China.

17 The registered address of this company is 251 Little Falls Drive, Wilmington, Delware, 19808, USA.

18 The registered address of this company is Prins Bernhardplein 200, 1097 JB Amsterdam, The Netherlands.

19 The registered address of this company is Lammerdries-Zuid 16F, 2250 Olen, Belgium.

20 The registered address of this company is Henry Davis York, 44 Martin Place, Sydney, NSW 2000, Australia.

21 The registered address of this company is Calle Cartagena 57, 1º D Torre Pacheco, Murcia CP 30700, Spain.

22 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.

CATEGORIES OF FINANCIAL INSTRUMENTS

£ million	29 December 2018	30 December 2017
Financial assets		
Loans and receivables at amortised cost:		
Amounts due from other Group companies	79.1	85.4

£ million	29 December 2018	30 December 2017
Financial liabilities		
Other financial liabilities at amortised cost:		
Other payables	–	0.4
	–	0.4

7. SHARE CAPITAL AND RESERVES

SHARE CAPITAL

£ million	29 December 2018	30 December 2017
Issued and fully paid:		
579,425,585 (2017: 579,425,585) Ordinary shares of £0.02 each	11.6	11.6

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

On 6 September 2018, the Company declared an interim dividend for the period ended 29 December 2018 of 2 pence per share to each of the Ordinary shareholders totalling £11,588,512 which was paid on 5 October 2018. A final dividend of 4 pence per share has been proposed for approval at the Annual General Meeting on 23 May 2019 and will be payable on 29 May 2019 to Ordinary shareholders on the register at 3 May 2019.

No dividends were declared for the period ended 30 December 2017.

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	
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)
Balance at 30 December 2017	366.1
Cancellation of share premium account	(366.1)
Balance at 29 December 2018	–

On 27 March 2018, the Company cancelled its share premium account of £366.1 million, resulting in a corresponding increase in retained earnings.

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. RELATED PARTY TRANSACTIONS

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

£ million	29 December 2018	30 December 2017
Amounts due from other Group companies	79.1	85.4

Amounts due from other Group companies relate to corporate loans of £79.1 million (2017: £85.4 million) due from Bakkavor Finance (2) Limited.

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

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

Amounts due from Bakkavor Finance (2) Limited carry interest of 3.4% (2017: 3.4%) per annum charged on the outstanding corporate loan balances.

9. EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

There have been no significant events after the statement of financial position date to report.

10. CONTROLLING PARTY

At 29 December 2018, 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)

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