


WE ARE BAKKAVOR

Bakkavor Group plc
Annual Report & Accounts 2021




We are the **leading provider** of fresh prepared food and put the **customer** at the heart of what we do.

In 2021 we delivered robust growth and achieved meaningful strategic and financial progress against a challenging backdrop. We have continued to leverage our scale, category leadership and expertise to emerge in a position of strength.

Agust Gudmundsson
Chief Executive Officer

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COMPANY INFORMATION

Advisers and Registered Office	IBC

Bakkavor   Bakkavor_Group   @Bakkavor   facebook.com/Bakkavor

Disclaimer – forward-looking statements

The 2021 Annual Report and Accounts, prepared by Bakkavor Group plc (the "Company"), may contain forward-looking statements about Bakkavor Group plc and its subsidiaries ("Bakkavor" or "the Group"). These represent expectations for the Group's business, and involve known and unknown risks and uncertainties, many of which are beyond the Group's control. The Group has based these forward-looking statements on current expectations and projections about future events. These forward-looking statements may generally, but not always, be identified by the use of words such as 'will', 'aims', 'anticipates', 'continue', 'could', 'should', 'expects', 'is expected to', 'may', 'estimates', 'believes', 'intends', 'projects', 'targets', or the negative thereof, or similar expressions.

By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that may or may not occur in the future and reflect the Group's current expectations and assumptions as to such future events and circumstances that may not prove accurate. A number of material factors could cause actual results and developments to differ materially from those expressed or implied by forward-looking statements. You should not place undue reliance on any forward looking statements. These forward-looking statements are made as of the date of this Annual Report and Accounts. The Group expressly disclaims any obligation to publicly update or review these forward-looking statements other than as required by law.

2021 FINANCIAL HIGHLIGHTS

Group reported revenue
£1,871.6m
+4.4%

Operating profit
£102.0m
+64.5%

Profit before tax
£81.4m
+84.2%

Net cash from operations
£144.0m
+62.7%

Basic EPS
9.8p
+3.9p

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AT A GLANCE

Our **deep understanding** of consumers' changing needs enables us to create innovative products for our **customers** around the world.

Total sites
46

Total suppliers
>900

Total colleagues
c.19,000

Total products
>3,200

Key

- Head office
- Factory
- Distribution centre
- Farm (China), growing unit (UK)

US

>80 products created this year

>350 products in our US portfolio

Core products

Meals	Artisan bread	Dips	Soups, Sauces & Burritos

10% of Group reported revenue

Reported revenue
£180.1m

Operating profit
£8.9m

Our grocery retail and direct-to-consumer customers include:

Harris Teeter
Kroger (Home Chef)

See Divisional Overview on **page 32**

UK

>340 products created this year

>1,500 products in our UK portfolio

Core products

- Meals
- Pizza & Bread
- Salads
- Desserts

85% of Group reported revenue

Reported revenue
£1,592.4m

Operating profit
£97.8m

Our grocery retail customers include:

Tesco	M&S	Sainsbury's	Waitrose
Co-op	Ocado	ASDA	Morrisons

See Divisional Overview on **pages 30 to 31**

Our sourcing platform is in Murcia, Spain.

CHINA

>550 products created this year

>1,300 products in our China portfolio

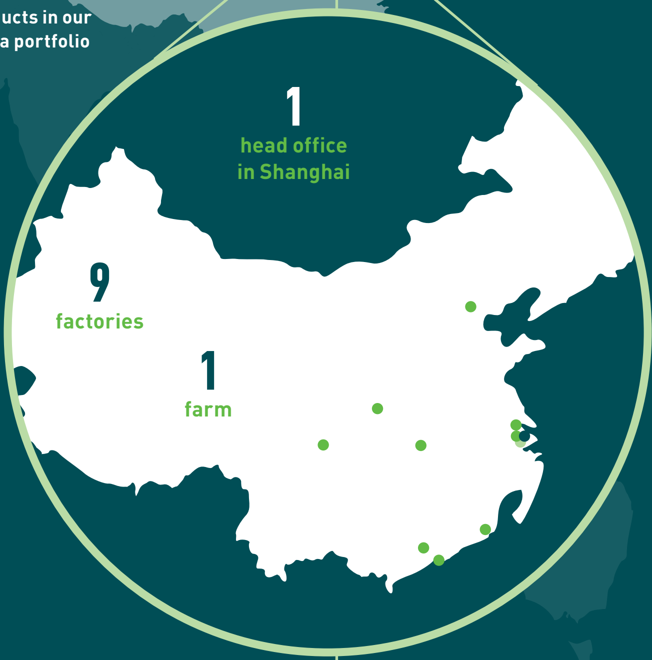
Core products

- Fresh cut salads
- Food-to-go salads
- Sandwiches and wraps
- Bakery
- Meals, soups & sauces

5% of Group reported revenue

Reported revenue
£99.1m

Operating loss
-£4.7m



Our foodservice and retail customers include:

YUM! (including Pizza Hut and KFC)	Starbucks	Aldi	M&S
	Costa	Pret	

See Divisional Overview on **page 33**

CHAIRMAN'S STATEMENT

For Bakkavor, 2021 was a year of recovery in the UK and China, and of accelerating growth in the US. This is reflected in our results, where we recorded an increase in reported revenue of 4.4% to £1,871.6m and adjusted operating profit, our key profit performance measure, of £102.0m, an increase of 22.0%, and an improvement in adjusted operating margin of 0.7% to reach 5.4%. At the same time we brought leverage back within our medium-term target range at 1.9x, whilst also reintroducing dividend payments during the year.

I would regard this as good progress in any year, but in the circumstances of 2021 it was a remarkable achievement. Having weathered the COVID-19 lockdowns in 2020 and early 2021, our industry hoped for a return to normal trading conditions in the second half of the year. Instead, it was confronted with a formidable array of business challenges, including labour shortages, wage pressures, supply chain disruption, product shortages, and widespread and sometimes extreme inflation across every category of raw material and cost. These have been well-publicised and have weighed on market valuations across our sector.

Bakkavor has a well-established and experienced management team, a commercial philosophy and dynamic ways of working that equip us well for really challenging conditions like these. The sudden onset of strong inflation was very unwelcome in the food industry and, as you would expect, it created significant tensions between businesses like ours and our customers. I have talked on previous occasions about the importance of key strategic partnerships with customers, and during this year these really came to the fore. The scale and depth of these relationships helped us greatly, with both parties working constructively to navigate this issue. I believe that this was beneficial for our customers as well.

We are also accustomed to using innovation and operating flexibly to mitigate cost increases that cannot be recovered in pricing. Our team worked extraordinarily hard to use these methods to cover larger gaps than we have seen before, and their success is reflected in these figures. The ability to do this, and the resilience it creates in difficult times, is a real differentiator of our business. I want to record my respect and my thanks to the team for what has been done this year. I'm afraid we will have to go on doing it for much of 2022, as current forecasts indicate no let-up in the challenges we face. But an outcome such as was achieved in 2021 gives us confidence that we can weather this year too.

Market conditions in the US have been very different, although some of the same challenges exist there too. Demand for fresh prepared food ("FPF") is strong and growing rapidly,

> 2021 was a year of recovery in the UK and China, and of accelerating growth in the US. I would regard this as good progress in any year, but in the circumstances of 2021 it was a remarkable achievement.

Simon Burke
Chairman

with the most respected names in US grocery retail all looking to extend and deepen their offering in this segment, and we are very pleased to be working with several of them. We are using the same partnership model, working hand-in-hand with our customers to develop products and extend their distribution across the country. The result for Bakkavor, as you can see in this report, is hugely encouraging. In the coming years we will be aiming to keep pace with the growth in the opportunity, whilst respecting our own standards for product quality, good factory operation and disciplined financial returns on investment.

In China, 2021 has been a period of recovery. While ongoing regional restrictions have continued to impact sales, we are making progress in diversifying our customer base to include retail and office catering players. With our investment in the region largely complete we have clear headroom for growth and are well-placed to capitalise on this opportunity.

Our progress with cash management during the year has also been good, with leverage moving back inside our medium-term target range. We were pleased to be able to reinstate dividend payments during the year, and we now propose a final dividend of 3.96 pence per share, which will take us to a total dividend for 2021 of 6.60 pence per share. This would be an increase of 10.0% on 2019 (no dividend was paid in respect of 2020). If approved by shareholders, the final dividend will be paid on 30 May 2022.

Looking forward, we expect 2022 to be demanding for us, in many of the same ways that 2021 was. The year has started well, and we can see numerous opportunities ahead for Bakkavor, both in the UK, and the US and China, which have significant potential for growth. First, however, we have to navigate the near-term challenges, much as we did in 2021, and come out of this turbulent period with a business base well-positioned to take advantage of opportunities as they come.

We were delighted to welcome two new Independent Directors during the year, Jill Caseberry in March and Sanjeevan Bala in August. They have both made a real difference already, and overall I am very pleased with the strength, diversity and team spirit of our Group Board. In two other important developments, Jill was also appointed our designated workforce engagement Non-executive Director, and we have extended the scope of the Nomination Committee to include Environmental, Social and Governance ("ESG") matters, with Umran Beba as our designated Group Board lead in this area. Both of these topics are high priorities for the Group Board in 2022.

I never conclude this statement without recognising the effort and achievement of colleagues across the business. This has been another very demanding year, not only with continuing COVID-19 precautions, but also the additional pressures deriving from shortages of labour, absence necessitated by positive COVID-19 tests, and the need to keep making the efficiencies I described above. Our colleagues handled all of this without missing a beat, keeping our customers satisfied and our performance strong. I want to acknowledge this achievement and thank them all for it.

Simon Burke
Chairman
7 March 2022

Further strengthened our Group Board

We strengthened our Group Board further in 2021 with the appointment of two new Independent Non-executive Directors.

On 1 March 2021, we welcomed **Jill Caseberry** to the Group Board, as Independent Non-executive Director and a member of the Remuneration Committee and, with effect from 13 August 2021, Jill became Bakkavor's designated workforce engagement Non-executive Director and is a member of the Nomination and ESG Committee.

On 1 August 2021, we welcomed **Sanjeevan Bala** to the Group Board as an Independent Non-executive Director and as a member of the Audit and Risk Committee.

See Group Board on **pages 94 to 96**

Strengthening our governance of Trusted Partner

- Newly formed ESG Executive Committee, a cross-functional group of senior leaders who cascade our Trusted Partner strategy across the business and embed our ambitions and activities in their day-to-day roles.
- Appointed Jill Caseberry as workforce engagement Non-executive Director, which ensures colleagues have a strong voice and representation at the most senior level within the business.
- Extended the remit of the Nomination Committee to include ESG governance and oversight.
- Appointed Umran Beba as designated Non-executive Director on ESG matters.

See Trusted Partner on **pages 34 to 53**

CHIEF EXECUTIVE'S OVERVIEW

GROWTH AND STRATEGIC PROGRESS DESPITE UNPRECEDENTED INDUSTRY CHALLENGES

We have delivered robust growth and achieved meaningful strategic progress during a year in which we have faced unprecedented industry-wide challenges.

Whilst we, along with the wider industry, have had to manage significant supply chain disruption and labour shortages, it is the resilience of our business model combined with our customer and supplier relationships, category expertise, deep management experience and strengthened financial position that have underpinned our progress during the year.

Our customers remain at the heart of what we do, and we have supported them through this challenging period by ensuring the continued availability of our products, underpinned by our well-established global supply chain network and relentless focus on excellence across our operations.

We are successfully managing the inflationary headwinds we are continuing to experience across our cost base. Our existing pass-through mechanisms are working well and we have secured price increases across our customer base to recover input cost and other inflation. Our focus on operational excellence has also delivered a year-on-year improvement in efficiency, helping to mitigate the higher cost environment.

As ever, I am incredibly proud of all of our colleagues, without whom our strong performance would not have been possible. I would like to personally thank them for their exceptional efforts, which are hugely valued by our customers, suppliers, and communities. We continue to work hard to support our colleagues' wellbeing in these challenging times. I was particularly pleased to relaunch our new values in the year, putting our people front and centre of what we do and how we behave, and alongside this we have made a significant investment in training and development.

Overall, we have continued to build on the strong foundations put in place in previous years, and in conjunction with our redefined values we are well-positioned to deliver long-term sustainable growth.

A STRONG FINANCIAL PERFORMANCE AND FURTHER STRENGTHENED OUR FINANCIAL POSITION

Despite the unprecedented challenges encountered through 2021, we delivered a strong and resilient financial performance across the Group. Reported revenue increased by 4.4% to £1,871.6m, driven by the recovery in UK demand, albeit performance was held back by the continuing supply chain and labour challenges that have accelerated since the summer. Our US business continued to deliver meaningful progress with strong top-line growth, and China, whilst showing good year-on-year growth, remains behind 2019 levels due to ongoing regional lockdowns meaning a slightly slower recovery. Compared to 2019, the Group delivered a 1.2% increase in like-for-like revenue.

I am proud of all our colleagues whose exceptional efforts have delivered a strong financial performance, progress on our strategic priorities and supported our customers, suppliers and communities.

Agust Gudmundsson
Chief Executive Officer

Our focused and controlled approach to ramping up the business in 2021 and managing the inflationary headwinds and industry-wide disruption, has delivered significant progress in profitability in the period across all three regions. Adjusted operating profit increased by £18.4m to £102.0m and adjusted operating margin increased by 70 basis points to 5.4%. The Group has not incurred any exceptional costs in the period and therefore there are no adjustments to operating profit.

We spent £55.6m during the year across our asset base. We have invested in factory automation, with the continued roll-out of our automated 'smart' manufacturing system in the UK, and have increased our spend on payback projects that underpin our operational excellence initiatives. Further, we have continued to increase capacity and enhance our capabilities internationally.

The financial position of the business has continued to strengthen. We generated £91.2m of free cash, and reduced operational net debt by £39.7m, resulting in a further reduction to leverage (ratio of net debt:EBITDA). Our leverage, at 1.9 times, now sits within our target range of 1.5x to 2.0x and is the lowest since we listed the business in 2017, and we continue to operate with significant liquidity headroom. Our continued cash generation and robust balance sheet position provide increased flexibility to invest in the business for growth and we are pleased to recommend a final dividend of 3.96 pence per Ordinary share, providing a total dividend for the year of 6.60 pence per Ordinary share.

CLEAR FOCUS ON OUR COLLEAGUES, PRODUCTS AND OPERATIONAL PERFORMANCE DELIVERED POSITIVE UK RECOVERY

Our clear focus on delivering innovative, great-tasting, fresh products for our customers every day, underpinned by our operational excellence and approach to retaining and attracting talent, has been critical to our strong performance in the UK.

Prioritising and investing in our colleagues

Our colleagues remain our priority and I am hugely supportive of the steps we have taken during the year to enhance ways of working and invest in development and recognition, whilst also being agile in our response to industry-wide labour shortages. This positions the Group well in the context of ongoing labour challenges.

We have implemented a range of initiatives to increase our recruitment and manage our retention as we, along with the wider industry, have faced a high level of vacancies and employee turnover. Since 2019, remuneration of our senior executives has been linked to delivering an improvement in retention and this will continue to be a key metric for our business. More recently, we have reset pay rates and provided additional and enhanced benefits including free transport, referral bonuses, increased flexibility in working patterns and upgraded site facilities.

We have also made significant investments in developing our talent for the future, with the launch of two training programmes: an Executive Leadership Development Programme and a Front-Line Leaders Development Programme for all UK factory supervisors.

In recognition of the incredible work that our colleagues deliver, in December 2021 we held our 'Proud to Be Bakkavor' awards. These awards celebrated our colleagues achieving fantastic results for our customers, colleagues, and communities. We received over 80 submissions which included a diverse set of nominations across all areas of the business including product innovation, excellence in operational delivery and wellbeing initiatives.

GROUP HIGHLIGHTS

Group like-for-like revenue[1]

£1,885.6m

+6.2%

2020: £1,775.1m

Adjusted operating profit[1]

£102.0m

+22.0%

2020: £83.6m

Adjusted operating profit margin[1]

5.4%

+70bps

2020: 4.7%

Free cash flow[1]

£91.2m

+£51.1m

2020: £40.1m

UK employee turnover

27.8%

+990bps

2020: 17.9%

Total Group net carbon emissions (tCO_2e)

135,691

-4.1%

2020: 141,538

1 Alternative Performance Measures ("APMs"), including 'like-for-like', 'adjusted' and 'underlying', are applied consistently throughout the Annual Report and Accounts. The APMs are defined in full and reconciled to the reported statutory measure in Note 36 of the Notes to the Consolidated Financial Statements.

CHIEF EXECUTIVE'S OVERVIEW CONTINUED

Leveraging deep consumer insight to drive growth through product innovation
In the UK, following initial disruption from the pandemic, we were strongly encouraged by the recovery in sales as lockdown restrictions eased and shopping visit frequency returned. Against the backdrop of labour shortages and supply chain disruption, we focused on maintaining availability of core product lines whilst also developing innovative products to drive growth in our categories.

We launched over 340 new products in 2021, responding to consumers' desire to 'do better' underpinned by our category insight which focuses on the 'big 6' drivers of growth. We have relaunched the full range of salads for one customer and delivered several seasonal products to make these events extra-special for our customers and consumers. In desserts, we leveraged our market-leading position, consumer insights and operational capabilities to launch two new brands, to attract new consumers and enhance category growth.

Looking forward, our new product pipeline is well-placed to deliver exciting, great tasting, fresh new products which meet our customers' and consumers' evolving needs.

Driving further operational efficiencies
Driving superior performance across the Group through operational excellence continues to be a strategic priority, especially in the context of ongoing industry-wide challenges that have accelerated through the year. We have delivered another year of improvement, building on our strong foundations across our operations and the supply chain.

We have also bolstered our operational excellence team, increased our spend on payback projects and are driving bigger, bolder change programmes on a Group-wide basis. These projects will better empower our teams to deliver operational excellence, with dedicated managers in place at each site, and enhanced management reporting of operational KPIs, through the continued roll-out of a new automated 'smart' manufacturing system, which is now live at 16 UK sites. This in turn is supporting the identification of further improvement opportunities and enabling us to be even more targeted in our investments to maximise returns.

We also completed an assessment of UK site automation opportunities which has yielded a significant number of potential opportunities and in the context of the tight labour market, we are looking to accelerate our investment in this area.

GOOD PROGRESS IN THE US AND CHINA, WITH SIGNIFICANT GROWTH OPPORTUNITY AHEAD
In the US, we continue to make significant progress as we realise the benefits of the commercial and operational reset that concluded in June 2020. Sales growth has accelerated, as demand for our fresh, convenient products continues to grow, and we have continued to support our strategic grocery-retail and online customers in the development and expansion of their offering. We successfully launched a range of fresh meals with a strategic customer nationally and delivered our biggest ever Thanksgiving for the US business.

> Being a trusted partner to all our stakeholders is key to our future success, and we have evolved our Group strategy to emphasise the importance of trust in everything that we do.

Agust Gudmundsson
Chief Executive Officer

DELIVERING PROFITABLE AND SUSTAINABLE GROWTH

THROUGH OUR STRATEGIC ELEMENTS

1 UK
Drive returns by leveraging our #1 market position

2 INTERNATIONAL
Accelerate profitable growth in the US and China

3 EXCELLENCE
Deliver superior performance through operational excellence

4 TRUST
Be a trusted partner for our colleagues, customers, suppliers and wider communities

See Our Group Strategy on **pages 22 to 25**

Operationally, our focus remains on capturing the significant growth opportunity in this fast developing market. We have enhanced and introduced initiatives to both attract new talent and retain existing colleagues. Our investments to increase ready meals capacity in Charlotte and Carson, to accommodate the national supply of fresh meals, is now complete. Our existing footprint will require further investment over the coming years to increase capacity, and with this investment we believe these sites can deliver $500m in revenue.

Cost headwinds, first felt acutely in the second quarter of the year, have persisted, and whilst we have been successful in securing price increases across our customers in the second half of the year to help mitigate the impact, margins have been held back. Consumer demand for our fresh, convenient food remains strong and we are well-placed to benefit from the accelerating growth in this market.

China continues to recover on a steady trajectory. Whilst we have maintained our high service levels and continued to deliver on new product development, the rate of recovery in our foodservice customers has slowed due to an ongoing impact from local lockdowns, thereby dampening performance. However, the benefit of our strategic focus on entering new channels with our existing product ranges is being realised with new retail and catering customer wins in China. We have seen good growth in both our Hong Kong and Bakery businesses in 2021, offsetting the weaker performance in foodservice.

With the completion of our new Wuhan facility earlier in 2021 and the new site in Xi'an due to complete in the second quarter of 2022, we have an established national footprint and significant headroom to continue to capitalise on the clear growth opportunity. With this increased capacity, we expect limited further strategic investment in the region in the coming years.

CONTINUED PROGRESS ON SUSTAINABILITY

Being a trusted partner to all our stakeholders is key to our future success, and we have evolved our Group strategy to emphasise the importance of trust in everything that we do. This includes upholding our ESG responsibilities, where we have delivered progress in the year, but also recognising that we need to improve further.

We set out our commitment to become a Net Zero carbon business across our Group operations by 2040 and have started to develop our 'roadmap' to support the delivery of this. Our Group net carbon emissions decreased by 4.1% in 2021 and this was driven by improvement in the UK, where net emissions reduced by 15.0% on 2020. This is underpinned by the investments we have made to continue to upgrade our refrigeration systems and drive energy efficiency improvements, with the conversion to more efficient LED lighting now complete across the majority of our sites. We have also sought to better understand our climate risk exposure and are voluntarily reporting under the Task Force on Climate-related Financial Disclosures ("TCFD") guidelines for the first time.

To support meeting the UK Plastics Pact's goals of eliminating problematic plastic packaging, we have removed c.400 tonnes of plastic in the year and increased the recyclability of our packaging (99.8% of our packaging is recyclable). Whilst the return in volumes to pre-pandemic levels has resulted in a year-on-year increase in food waste, up 67 basis points to 9.15% in 2021, we have redistributed more than 400,000 meals to charities and recycled more than 21,000 tonnes as animal feed.

We recognise that a healthy workplace encompasses not only keeping our colleagues safe, but also sustaining their wellbeing and in 2021 we have enhanced the support our colleagues receive, overseen by our newly formed Wellbeing Steering Committee.

BUILDING ON THE GROUP'S MOMENTUM IN 2022

Bakkavor's history is characterised by repeated and fundamental change. In the 36 years since my brother and I founded the Company, we have seen the business evolve enormously, and we continue to adapt and respond to the changing environment within which we operate. This year will be no different.

Sales volumes in early 2022 are encouraging, giving confidence in building on the Group's positive revenue momentum through 2022. We remain well-positioned to mitigate the impact of industry-wide supply chain and labour challenges, and resulting increases in costs, that are expected to persist in the near term.

The tragic events in Ukraine are not causing a direct impact to our supply chain as we do not have significant exposure to the region, however the consequences for the global economy are uncertain at this stage. We are carefully monitoring the situation, and our thoughts are with all those affected.

Our market-leading position in the UK continues to deliver a robust performance, and we see meaningful growth potential in the US where we have a strong manufacturing footprint and strategic relationships in place. In China, with ongoing regional restrictions, we expect COVID-19 to continue to hold back performance. However, further diversification of our customer base will leave us well-placed to capitalise on the long-term growth potential within the region.

We are confident in delivering 2022 in line with market expectations as our established teams, commercial philosophy and dynamic ways of working equip us well for successfully navigating the tough environment. We remain positive about the medium-term growth opportunity, with the Group's strengthened balance sheet providing the flexibility for targeted investment to support future growth, drive efficiency and deliver returns to shareholders.

Agust Gudmundsson
Chief Executive Officer
7 March 2022

HOW WE CREATE VALUE

Our proven and sustainable business model is underpinned by our customer-centric approach, **creating value for all stakeholders.**

OUR KEY RESOURCES

c.19,000
talented, diverse and passionate colleagues

Long-standing, strategic customer partnerships with in-depth understanding of their, and consumer, needs

Market-leading insight and innovation in own-label fresh prepared food

Well-established and agile supply chain

46
sites across the UK, US and China

£55.6m
of capital invested in 2021

OUR BUSINESS MODEL

1 Leverage market insight, innovation and expertise to develop new products

Number of new products
>950

Number of UK development chefs
39

2 Responsibly source high-quality raw materials and directly manage inbound supply chain

Number of suppliers we source from
>900
across
>50
countries

3 Manufacture fresh prepared food every day to the highest standards and at scale for our customers

Sites are operational
24/7

Number of food safety professionals
c.700

Outbound distribution of products to distribution centres and stores is managed by our customers via in-house or third-party hauliers

Our values are a set of guiding principles that unite and inspire our colleagues and underpin our culture to support the delivery of our vision.

Respect and trust each other

Keep the customer at the heart of what we do

Get it right, keep it right

Be proud of what we do

OUR VALUE CREATION

Skilled, engaged and progressive talent pool

650
colleagues enrolled on Front-Line Leaders Development Programme

Innovative, high-quality and great-tasting fresh prepared food that consumers love

Meals | Pizza & Bread | Salads | Desserts

Best-in-class and resilient operations underpinned by operational excellence approach

Operating profit margin
5.4%

UK sites AA+ or A+ BRCGS rated
100%

Well-invested, strategically-located international footprint to capitalise on future growth

UK
23
factories

US
5
factories

China
9
factories

Strong and sustainable free cash flow generation

Free cash flow
£91.2m

A sustainable business with clear ESG commitments

Reduction in Group GHG emissions intensity ratio (gross tCO_2e/ £m reported revenue)
10.0%

OUR KEY STAKEHOLDERS

COLLEAGUES

CUSTOMERS

SUPPLIERS

INVESTORS

COMMUNITIES

See Stakeholder Interaction on **pages 66 to 71**

OUR MARKETS

How Bakkavor can lead the way **in growing the FPF market**

The COVID-19 pandemic had a profound impact on global shopping and consumption habits, with government restrictions and the risk of the virus influencing consumers' behaviour. Demand for certain categories of FPF has been adversely impacted due to mobility restrictions across the UK, US and China, whilst others have benefitted from the increase in in-home meal occasions. As restrictions have eased and the impact of the pandemic has abated, consumers are demanding fresher, quicker, and more inspirational meal solutions. The range of FPF across our categories has continued to evolve to provide innovative, great tasting products, and has underpinned the strong performance of the FPF market in all three regions in 2021.

The easing of COVID-19 related restrictions through the first half of the year has supported the restoration of consumer mobility and subsequently a return in the frequency of shopping trips, a key driver of FPF performance. The demand for food-to-go products, such as salads, has benefitted from the steady move back to the office working environment and increase in travel. In contrast, the continuation of remote working, as well as continued consumer caution on when to eat out due to ongoing COVID-19 and economic concerns, has benefitted other FPF categories, such as pizza and desserts, with an increase in the number of meal occasions in the home.

Additionally, demand for FPF has been favourable due to consumers' busier lives, mealtime malaise and a desire to seek enhanced meal enjoyment at home. This has meant that consumers are willing to pay more for an added-value experience, and therefore driven an increase in purchases of premium and branded products. Combined with seeing fewer promotions, this has led to an increase in the average price across FPF products.

Ensuring we deliver against consumer needs is paramount. These need states are growing and the importance to deliver upon them is intensified by legislative forces and retail targets, particularly around health and sustainability goals.

Today's consumer is seeking to do better – for themselves, for others and for our planet, with an ambition to:

- **Eat better** by enhancing health and wellbeing;
- **Enjoy meals better** with a more valued experience;
- **Spend better**, particularly elevated as we head into 2022 with rising living costs; and
- **Live better**, with COP26 bringing sustainability back to the front of mind.

99%
of GB households consume FPF products on average

62
times a year[1]

THE BIG 6 DRIVERS UNDERPINNING GROWTH IN FPF

To meet consumers' desire to do better, we have distilled our insight to identify six key growth drivers. These drivers help us to focus our efforts and identify how we can lead the way in growing the FPF market and are used to underpin our category and customer plans.

While they were initially developed to respond to change and opportunity in the UK, they are generally applicable to the US and China. We have expanded on each of the six growth drivers and how we have responded through 2021.

BE FRESH AND NATURAL

BE PARTICIPATORY

BE PART OF MORE MEALS

BE EXPERIENTIAL

BE RELEVANT ALL DAY

BE SUSTAINABLE

1 Kantar 52 weeks to 26 December 2021.

WHAT ARE THE DRIVERS AND HOW IS BAKKAVOR RESPONDING?

BE FRESH AND NATURAL

Leading through a fresh perspective of health

- Consumers' growing ambition to eat better along with government legislation and retailer targets are acting as a driving force in changing attitudes towards healthy eating.
- Consumers desire fresh, natural, modern and vibrant product ranges that create a healthy balance in meal repertoire.
- They are seeking out products that look homemade, and are using traffic lights as a useful guide to support their judgement on health. The historical focus on meeting health needs through calorie control has become less important.
- Furthermore, they are looking to reduce red meat consumption, favouring alternative proteins, increasing the vegetable content, or using natural plant-based alternatives.
- Product trust is essential, as well as good quality and delivering great value.

How we have responded
- We have launched new products that leverage our fresh food credentials to respond to consumer needs.
- We relaunched over 60 products in a key customers salad range to address consumers' increasing focus on health, introduced new products across retailer 'balanced meals' ranges, and relaunched several hearty new soups, increasing ingredient quality and enhancing the nutritional profile.
- We are preparing for the upcoming regulatory changes that will impact high fat, salt and sugar ("HFSS") products' store location and promotional dynamics from October 2022, with the primary exposure in desserts, pizza and ready meals.
- We have made progress in reformulating several higher risk products and continue to work with our customers to develop the commercial mechanics and evaluate new opportunities.
- In China, we developed several health-focused products, including overnight oat pots and purple potato puree. In the US, we have launched a range of low-carbohydrate meals with a strategic customer, to provide consumers with balanced, healthy meal choices.

Market insight:

88%
of UK consumers state fresh and natural as the most important influencer of healthy food choice when shopping[2]

9 in 10
retailers[3] in the US see fresh meal solutions as an important growth segment

BE PARTICIPATORY

Provide a more interactive experience

- In conjunction with consumer desire to eat more fresh and natural meals, we have seen a shift in consumers' seeking more involvement in meal creation.
- This trend accelerated through periods of lockdown when consumers had more time to try new recipes and cook more themselves.
- Whilst consumers' desire to cook remains, we have seen a shift and growing need for more convenient, part-prepared products that provide fresh convenience to fit in with busier post-pandemic lifestyles.

How we have responded
- We launched new stir-fry products, including a range to satisfy the desire for growing Asian cuisines, with combinations such as pak choi and butternut squash.
- As part of our strategic customer salads relaunch, we introduced a 'BBQ Kit Salad Bag', an example of bringing participatory products to the table.
- Demand for fresh and convenient meals continues to accelerate in the US, and we have successfully rolled out a range of fresh meals to over 500 stores for a strategic customer.
- As the FPF market under-indexes in 'participatory' products, we have the opportunity to further leverage our already successful participatory categories such as stir-fry, fresh sauces, and salads, and enhance our offering of convenient part-prepared ingredients to support meal preparation.

Market insight:

38%
of meal occasions are cooked from scratch or assisted (i.e. those using partially-prepared ingredients to create a meal), yet only 17% of FPF occasions[4]

2.2%
point growth in consumer from scratch or assembly cooking on a Saturday evening in the last 5 years[5]

2 UK: Good Sense Research carried out for Bakkavor in March 2021. Sample size of 2,034 UK consumers, understanding health motivators in Fresh Prepared Foods.
3 US: Research from The Food Industry Association and Deloitte.
4 UK: Kantar Usage panel, 52w/e 24 January 2021 % savoury evening meal occasions by meal preparation method.
5 UK: Kantar Usage panel, 52w/e 24 January 2021 % savoury evening meal occasions by meal preparation method on a Saturday over 5 years.

OUR MARKETS CONTINUED

BE PART OF MORE MEALS

Providing fresh, tasty meal components

- The majority of meals made at home are created from easy to assemble parts, such as sausage and mash, chicken and salad.
- Consumers are moving away from 'quick' and instead looking for solutions that are 'easy', reflected in the popularity of assembled meals particularly amongst families.
- Consumers' desire for ease, value, inspiration, and freshness can be met through versatile fridge-fillers and components that complement the main meal, such as dips, dressed salads, chilled breads and modern deli products, in formats relevant for multiple meals and occasions.
- While FPF currently under-indexes in assembled meals, the range of products can provide easy, convenient solutions and provides an opportunity for growth.

How we have responded

- We have continued to enhance consumers' mealtimes through easy meal-makers, including an indulgent truffle mash and providing pizza accompaniments such as a pizza dip stacker.
- We have also evolved our range of desserts to include more premium products and in multiple formats, such as our individually portioned cheesecake slices for enhanced versatility.
- Our range of focaccias and topped artisan bread in the US is increasingly part of more meals, consumed as accompaniments in a larger meal, or as a solution for convenience-seeking consumers.
- Dips also continue to be used as a key component across a variety of meals, from fresh and protein-rich salads to being part of Mediterranean style sharing plates.

Market insight:

51%
of evening meals are assembled, the most popular method of making meals[6]

7%
is the share of assembled meals for FPF and provides an opportunity for growth by providing easy meal assembly solutions[6]

BE EXPERIENTIAL

Take consumers on an exciting culinary adventure

- Delivering taste and enjoyment is the ultimate consumer need to target.
- Consumers are looking for an enhanced experience when they shop, cook and eat; searching for inspiration, food adventure, shared moments, elevated experiences and a touch of indulgence.
- Consumers are prepared to pay more for an experience, particularly willing to treat themselves at the weekend, supporting growth in premium tier and branded products.
- Products need to deliver quality, taste and inspiration to enable consumers to connect with and enjoy their food.

How we have responded

- We launched over 950 products in 2021, providing consumers with high-quality, great-tasting products, and a constant stream of exciting product innovation to enhance their experience.
- We have continued to innovate in desserts, with the launch of variations on our popular yumnuts, an indulgent premium éclair and a delicious Basque cheesecake.
- We also launched two of our own brands: Haydens Bakery and The Delicious Dessert Company, with our range of eclairs now in over 900 stores with two strategic customers.
- We have created meal propositions that bring restaurant meals to the home by leveraging our multi-category capability to add a range of Italian ready meals, bread and desserts to our existing Pizza Express offer, along with the launch of new Asian and oriental-inspired ready meals.

Market insight:

79%
of food and drink choices are motivated by the desire for meal enjoyment[7]

Consumers pay
17%
more on average for a Saturday evening meal compared to one during the week[8]

6 UK: Kantar Usage panel, 52w/e 24 January 2021 % savoury evening meal occasions by meal preparation method.
7 UK: Kantar Usage panel 4w/e 24 January 2021 % total food and drink servings, in home, carried out driven by motivators of enjoyment, practicality and health.
8 UK: Kantar Usage panel for 52 w/e 24 January 2021. Saturday evening meals vs. weekday evening meals, difference in av. £ per occasions, in home & carried out occasions.

BE RELEVANT ALL DAY

Broadening our presence across daytime occasions

- Meal occasions in the home increased through 2020 and 2021 as a result of COVID-19 government restrictions.
- As these restrictions have eased, the demand for out of home, on the move occasions has started to rebound. However, consumers expect to maintain a degree of hybrid working going forward and therefore demand for daytime in-home meal occasions remains strong.
- Consumers desire products that are fit-for-purpose for both in-home and out-of-home daytime consumption.
- They are seeking products that provide inspiration to elevate their experience in the relevant format and are versatile to reflect their different meal preparation needs.
- Positive health, ease and filling are all more important to a 'working from home' lunch than they were pre-COVID-19, with treating and speed deprioritised.

How we have responded

- We have continued to elevate our UK range of food-on-the-move salads and wraps. We launched several speciality salads for a strategic customer, including a bang bang chicken salad, which provided consumers with inspiring and vibrant ranges of products.
- We have supported one of our strategic customers with a range of products developed to target the lunchtime occasion, including salads and a hot-eating offer of topped pizza flatbreads.
- In the US, our range of burritos is consumed throughout the day, as a hearty breakfast, an on-the-move lunch, or a convenient dinner. We have continued to bring excitement to the category with alternative fillings such as chicken asada and turkey mole.
- Expanding beyond the lunchtime offer, in China, we have worked with a large coffee chain to supply breakfast sandwiches nationally, as part of a new meal deal range.

Market insight:

57%
of meal occasions across the market are lunch and snacking, but only 32% of FPF occasions, highlighting the opportunity to grow day part occasions[9]

33%
year-on-year increase in appetite for pre-packed fresh convenience foods in China[10]

BE SUSTAINABLE

Acting now for a more sustainable future

- There is a heightened need for businesses, governmental bodies, and individuals to act now to ensure a more sustainable future.
- Our customers have set ambitious sustainability-linked targets to have a positive impact and help meet consumers' increasing desire to live better.
- Consumers are seeking transparency and trust, and are looking for, and switching to, products and brands with sustainable credentials.
- Consumers are increasingly adopting a flexitarian approach to their diet, reducing reliance on red meat and trying new alternative proteins. They have a heightened focus on reducing food waste, which fulfils ethical concerns as well as bringing budgetary benefits.

How we have responded

- We have introduced a number of initiatives to act sustainably for our future across food waste, packaging, and emissions. See more in Trusted Partner on pages 34 to 53.
- Vegetarian products comprise 50% of our UK product portfolio and almost one in five of our products are vegan or plant-based.
- We have supported our customers in the delivery of their sustainability targets, including a 25% reduction in plastic used in an Italian ready meal tray to support a key customer's packaging initiatives.
- We have increased the use of alternative proteins in our products that are part of our strategic customers' plant-based ranges.
- In China, we have supported the shift towards more sustainable food and collaborated with two plant-based specialists to include their branded meat substitutes in several new products for our foodservice and retail customers.

Market insight:

16%
of shoppers now follow a vegan, vegetarian, or flexitarian diet per IGD ShopperVista[11]

34%
of consumers surveyed[12] stated they will look to make more sustainable product purchases in the future

9 UK: Kantar usage panel for 52 w/e 24 January 2021 % Occasion Spend by day part (excluding breakfast), in home & carried out.
10 China: https://www.statista.com/outlook/cmo/food/convenience-food/ready-to-eat-meals/china.
11 UK: IGD ShopperVista survey of 2,062 consumers in October 2021.
12 UK: OnePulse survey of 500 respondents carried out by Bakkavor in October 2021.

OUR VISION, PURPOSE AND VALUES

Living our values **every day**

Our vision

To lead the way in bringing innovative, great-tasting, freshly prepared food to people around the world.

Our values

Our refreshed values focus on working together, being open and honest with each other and ensuring that we treat all colleagues the same.

We ask our colleagues for honest feedback about our values and what it's like to work for Bakkavor through our Employee Engagement Survey ("EES"). The feedback directly influences our ways of working and how we create a great place to work.

RESPECT AND TRUST EACH OTHER

- Treat each other fairly and include everyone – we're all on the same side.
- Care for and support each other to achieve our goals.
- Build confidence and have trust in one another.
- Listen to each other and recognise everyone's contribution – we can all make a difference.

Our values are the foundation of our culture. They guide our behaviours and reflect who we are today and aspire to be tomorrow. Our refreshed values are warmer, more personal and more people focused. We must all now create the environment to embed these values into the business and deliver consistent change.

Agust Gudmundsson
Chief Executive Officer

Our purpose

To delight our customers and consumers through the fresh, convenient, innovative and great-tasting food that we proudly create every day.

KEEP THE CUSTOMER AT THE HEART OF WHAT WE DO

- Always value and protect our customer partnerships.
- Maintain our commitment to the highest standards of food safety, integrity and quality.
- Innovate to help customers stay ahead.
- Stay agile and work together with our customers to anticipate future needs.

GET IT RIGHT, KEEP IT RIGHT

- Uphold our standards and be consistent every day.
- Stay safe and look after ourselves and each other.
- Take responsibility for the impact of our actions on the environment and in our communities.
- Be fit for the future – learn from our mistakes and invest in our skills.

BE PROUD OF WHAT WE DO

- Aim high, value our efforts and always go the extra mile.
- Be positive, celebrate and share our successes.
- Inspire others to work with passion and enthusiasm.
- Look for ways to improve the way we work.

OUR COLLEAGUES

Proud to be Bakkavor

"Our diverse, skilled and innovative c.19,000 colleagues, from over 90 countries, are committed to delivering great-tasting freshly prepared food for our customers globally. This is a testament to why we are a trusted partner to our customers, suppliers and wider communities. We are Bakkavor and proud of what we do.

Donna-Maria Lee
Chief People Officer

WHAT OUR COLLEAGUES ARE TELLING US

83%
response rate to our most recent Employee Engagement Survey

OUR COLLEAGUES TAKE PRIDE IN THE KNOWLEDGE THAT:

- They know what we ask of them.
- They have the authority to do their jobs well.
- They understand how they contribute to the bigger picture.
- They are passionate about food safety.
- We look after their safety at work.
- The customers' needs are at the heart of what we do – making high-quality products.

WE ARE COMMITTED TO:

- Recognising everyone's contribution to the business.
- Improving our communication and collaboration.
- Providing more learning and development opportunities supported by regular feedback.
- Supporting colleagues' wellbeing.

OUR APPROACH

Employer brand
Creating a compelling employer brand experience for current and future colleagues

Engaged employees
Growing our culture to harness our colleagues' desire to make a difference, and to feel worthwhile and included at Bakkavor

Colleague empowerment
Providing our colleagues with self-service tools to manage HR day-to-day requests and lead and engage teams

Our approach is integrated with the 'Engagement and Wellbeing' element of our Trusted Partner strategy, see pages 45 to 48.

OUR ACHIEVEMENTS IN 2021

Increased rates of pay and provided new benefits

- Implemented a discretionary, out-of-cycle pay increase for the majority of our factory-based colleagues.
- This was a significant investment in our colleagues, and recognises the importance of maintaining high levels of morale and colleague retention.
- Worked hard to make sure the quality and breadth of our colleagues' benefits package remains competitive and attractive.
- Announced two new benefits for all colleagues: free independent mortgage advice, and a 10% discount on GoStudent home tutoring.

Invested to improve site facilities

- Invested in new staff shops at our Meals Sutton Bridge and Desserts Devizes sites, a new canteen at our Bread Barton site, a state-of-the-art learning hub at our Meals London Elveden site and a new outdoor seating area at our Salads Bourne site.

Colleagues' voice well-represented at the Group Board

- Appointed Jill Caseberry as the company's designated workforce engagement Non-executive Director.
- Jill attended engagement sessions with Bakkavor's Site Employee Forums ("SEF") and Group Employee Forum ("GEF"), and feedback was provided to the Group Board.
- Workforce engagement initiatives were communicated to colleagues via our colleague magazine and colleagues were invited to email Jill with their ideas for increasing engagement with or among colleagues.

Enhanced our wellbeing support

- Instigated a cross-functional steering group in the first quarter of 2021 aimed at supporting our colleagues emotionally, physically and financially.
- Encouraged colleagues to utilise resources provided by our enhanced wellbeing toolkit, including support mechanisms such as our Employee Assistance Programme and promoting financial support through our Group charity partner, GroceryAid's, helpline.
- Wellbeing campaigns launched include: supporting Mental Health Awareness Week; increasing awareness of the dangers of high blood pressure during September's Know Your Numbers week; sharing NHS advice around protecting your back during Back Care Awareness Week; and offering all UK colleagues free flu jabs.

OUR COLLEAGUES CONTINUED

> Our aim is to provide our colleagues with an environment where they feel valued, included and inspired to perform at their best. We have made good progress during 2021, but we must strive to do better.

Donna-Maria Lee
Chief People Officer

Significant investment in two new development programmes

- Enrolled more than 650 factory-based colleagues on our new Front-Line Leaders Development Programme, designed to give them the skills they need to do their job to the best of their ability.
- Positive feedback received to date from colleagues that they were delighted to be engaged and excited to put their learnings into practice.
- Launched an Executive Leadership Development Programme for over 20 leaders across the Group.

650
factory-based colleagues on our new Front-Line Leaders Development Programme

Launched our Inclusion & Diversity ("I&D") Forum and celebrated several initiatives

- Launched our I&D Forum – a steering group of representatives from across the business, who are committed to shaping and advocating our inclusion and diversity agenda.
- Colleagues shared their personal commitments to drive inclusion and equality as part of our International Women's Day campaign. We marked National Inclusion Week by launching our own I&D Learning Hub, which focused on driving behaviours that promote a culture of inclusion, respect and care. Additionally, it highlights the strength that cultural diversity brings to our workforce. We encouraged colleagues to wear their national dress to work and share recipes from their culture on World Day for Cultural Diversity.
- We acted as headline sponsor and partner of the Diversity and Inclusion in Grocery Programme, that aims to bring together FMCG businesses in order to deliver change.

Progressing our Group HR transformation

- Investment to integrate all HR systems into one platform, SuccessFactors, has continued to progress well through the year.
- SuccessFactors will allow colleagues easy mobile access to the information they need, supporting their empowerment. It will also bring standardised and streamlined HR processes across the business.

Recognised our colleagues through our 'Proud to Be' awards

- Responded to feedback from our Employee Engagement Survey, which highlighted that colleague recognition was an area where we had an opportunity to improve, by creating the Celebrating 'Proud to Be' Bakkavor Awards.

CELEBRATING
'PROUD TO BE' BAKKAVOR

- This different take on our Innovation Awards was designed to recognise the exceptional nature of the last 18 months and show our appreciation to the colleagues and teams who delivered the innovation and change that have enabled us to adapt to the challenges the business has faced in this period, including changing customer and consumer demand, heightened health and safety regulations and new ways of working.
- Received 80 diverse submissions, covering a wide range of achievements including in product innovation, excellence in operational delivery and wellbeing initiatives.

Enhanced our recruitment and onboarding experience for new colleagues

- Improved our recruitment experience for UK factory colleagues by reducing average time from application to hire by eight days.
- Introduced new onboarding programme at our UK sites to improve staff retention and give new colleagues the best possible introduction to working at Bakkavor.
- Our site HR and management teams receive access to an online toolkit, which contains helpful documents and best-practice guidelines. It also encourages our sites to introduce a New Starter Champion to support new colleagues during their first few weeks at Bakkavor.

See Trusted Partner – Engagement and Wellbeing on **pages 45 to 48**

OUR PRIORITIES FOR 2022 AND BEYOND

We are extremely excited about our colleague agenda in 2022. Our four priorities are:

- **Developing our employer brand:** We will continue to implement our Company-wide approach to align our recognition processes, expand our learning and development programme and seek to onboard colleagues more effectively.
- **Enhancing our colleague engagement:** We will seek to raise awareness and further embed inclusive behaviours that represent our evolved values. We will recognise loyal and innovative colleagues through our UK Loyal Service Awards whilst building their skills through the further roll-out of mentoring and front-line leadership initiatives. We will also continue to improve our digital communications across the Group.
- **Promoting colleague wellbeing in our workplace and communities:** We will continue with the roll-out of our fast-track physio service that helps colleagues with musculoskeletal health conditions, develop a network of Health and Wellbeing Champions and introduce a suite of wellbeing training content.
- **Further empowering our colleagues:** We will continue to progress our Group HR transformation, with SuccessFactors, due to go live in the first quarter of 2022. This will help drive productivity and empowerment by enabling colleagues to access self-service tools.

OUR GROUP STRATEGY

Delivering profitable & **sustainable growth**

Realising our vision to lead the way in bringing innovative, great-tasting, freshly prepared food to people around the world.

THROUGH OUR STRATEGIC ELEMENTS

1

UK
Drive returns by leveraging our #1 market position

2

INTERNATIONAL
Accelerate profitable growth in the US and China

3

EXCELLENCE
Deliver superior performance through operational excellence

4

TRUST
Be a trusted partner for our colleagues, customers, suppliers and wider communities

Our approach is captured in our Trusted Partner ESG strategy, which defines our actions on the issues that matter most to our stakeholders across our supply chain, our own operations and in our workplaces and communities.

See Trusted Partner on **pages 34 to 53**

“

We leverage our expertise and scale to create fresh, delicious and great-value products that people love to eat, and in the process generate profitable and sustainable growth.

Sebastiano Macchi
Group Strategy Director

1

UK: DRIVE RETURNS BY LEVERAGING OUR NUMBER ONE MARKET POSITION

Our strategy in the UK is to leverage our number one position in the fresh prepared food market to drive financial returns for the benefit of all of our stakeholders.

OUR SCALE

4x

Bakkavor's share in the UK fresh prepared food market is almost four times that of the second largest player

"Our strong performance is testament to the robust foundations we have laid down; scale, category leadership and strong customer relationships, as well as our acute focus on driving efficiency and a tight control of costs.

Mike Edwards
Chief Operating Officer, UK

OUR KEY DRIVERS

- Capitalise on our market insights, innovation capabilities and breadth of offer to develop products and propositions that delight our customers and consumers.
- Maximise the benefit of our scale to develop, prepare and distribute our products with a more efficient and sustainable use of resources.
- Pursue and capitalise on profitable growth opportunities that allow us to create value for our shareholders, whilst also reinvesting in our colleagues' skills and competencies.

WHAT WE HAVE ACHIEVED

- Rebalanced our portfolio towards product categories with higher growth or margin where we hold a stronger competitive advantage.
- Leveraged the breadth and depth of our product development capabilities and our proprietary consumer insights to successfully launch new brands and propositions in our categories, such as The Delicious Dessert Company and Pizza Express's expanded range.
- Minimised the impact of supply chain disruptions during the COVID-19 pandemic by retaining an agile decision-making process and collaborating more closely with our customers and suppliers.
- Reviewed our operational processes following the UK's exit from the EU, including investment in capabilities, information systems, inventory, centralisation of ordering and workforce review.

FUTURE FOCUS

- Targeted investment in new production capacity to accommodate growth in demand in certain areas, such as bread and plant-based products.
- Create centres of excellence for specific manufacturing processes or product groups to drive innovation and efficiency across our sites.
- Continue adapting our processes and operations to prepare for, and mitigate the impact of, any further supply chain disruption, labour scarcity, input inflation and Brexit impact through the year.
- Explore inorganic growth opportunities within the fresh prepared food market to broaden our capabilities and bolster our proposition to customers.

STRATEGY IN ACTION

One of our strategic customers sought to review its supplier base across multiple fresh prepared food categories. Our customer-dedicated commercial team leveraged our matrix structure to mobilise resources across 15 UK sites that covered all categories in scope, including areas that we were not yet supplying. The scale and breadth of expertise in our UK business allowed us to deliver a comprehensive proposal that won new business across two categories whilst retaining all our existing supply.

OUR GROUP STRATEGY CONTINUED

2

INTERNATIONAL: ACCELERATE PROFITABLE GROWTH IN THE US AND CHINA

We have a strong and growing presence in the two largest food markets in the world, the US and China, where the Group has operated for over 10 years. We leverage our UK expertise to support our local teams and continue to deliver profitable growth.

OUR SCALE

48%

Our US ready meals sales increased by 48% in 2021

> In the US we continued to deliver strong top-line growth and invested to increase our capacity, whilst mitigating the impact of industry-wide challenges. We are well placed to take advantage of the significant growth potential in the US market.

Pete Laport
Chief Executive Officer, US

OUR KEY DRIVERS

- Invest in new capacity, manufacturing capability, knowledge and skills to expand our offering and meet the needs and increased demand from our customers.
- Broaden and strengthen our existing customer partnerships and develop new ones with customers that are committed to expanding their fresh food offer.
- Leverage our Group expertise and combine this with deep local knowledge to develop on-trend products, tailored to local tastes and under the highest safety standards.

WHAT WE HAVE ACHIEVED

US

- Delivered remarkable growth in the ready meals category on the back of successful range reviews with our existing customers and a new national supply contract with a major retailer.
- Reacted at pace to supply chain disruptions and labour shortages to maintain high service levels and continuity of supply to our customers.
- Continued to invest in our leadership team to support the growth of the business in the years to come.

CHINA

- Leveraged our national footprint to support our customers' growth plans, including from our recently opened Wuhan production site.
- Delivered good growth in our Bakery and Hong Kong businesses and returned both to profitability following new business wins, performance improvement actions and more favourable market conditions.
- Expanded our reach into grocery retail and grew our presence in the office catering channel through market-leading product innovation.

FUTURE FOCUS

US

- Invest in our existing sites to maximise capacity and ensure we maintain the highest technical standards, as well as maximising operational performance.
- Develop a plan to deploy new capacity and expand our footprint, ensuring continued growth as our current sites reach full capacity over the coming years.
- Provide market-leading innovation to our customers through a consistent stream of new products that respond to and anticipate consumer desires.

CHINA

- Continue to grow sales with current and new customers by leveraging our national footprint, innovative product portfolio and market-leading technical standards.
- Drive margin improvement through operational leverage, development of our product portfolio and operational excellence.
- Develop and implement a plan to retain and attract key talent, ensuring our leadership team has the capacity and capabilities to deliver on our ambitions for the market.

STRATEGY IN ACTION

US

Delivered exceptional growth in the ready meals category by rolling out our offer at one customer across its entire 500-store network, launching a new retailer-branded offer at another retailer, and broadening our range with another two customers.

CHINA

In Hong Kong, centralised the in-store bakery operations for a strategic customer into our premises, improving the product quality and baking efficiency and ultimately leading to 30% growth in our customer's bakery sales.

3

EXCELLENCE: DELIVER SUPERIOR PERFORMANCE THROUGH OPERATIONAL EXCELLENCE

Bakkavor continues to invest in its colleagues and assets to generate operational efficiencies and maintain the highest technical standards and service levels.

OUR SCALE

£12m

investment in our new automated manufacturing system to increase productivity across our UK production sites

"Whilst facing significant challenges in the year, we have worked hard to ensure our operational delivery remained strong. We have increased resource in our operational excellence team and have a strong pipeline of projects to drive further improvement.

Kuldip Bains
Head of Operational Finance

OUR KEY DRIVERS

- Identify and deliver efficiency improvement opportunities across the Group through the deployment of our dedicated and highly-skilled operational excellence team.
- Enhance productivity through a combination of automation investments and colleague training, with a particular focus on engineering skills.
- Uphold the highest of food safety and health and safety standards in our operations for the benefit of our colleagues and the consumers of our products.
- Establish a resilient and efficient global sourcing platform through our dedicated teams in the UK, Spain and China.
- Maintain our market-leading service levels through timely and accurate deliveries.

WHAT WE HAVE ACHIEVED

- Implemented various process improvement initiatives and productivity investments across our sites globally. This included redeploying equipment across our UK sites, centralising procurement, installing new automation solutions and increasing our colleague training efforts.
- Continued the roll-out of a new automated smart manufacturing system across our UK sites to highlight opportunities for efficiency gains.
- Provided best-in-class service levels to our UK customers despite challenges with availability of labour and supply chain disruption.
- Maintained industry-leading technical standards across the Group in health and safety and food safety.

FUTURE FOCUS

- Drive manufacturing efficiencies through automation, data-driven control of materials and labour, improved training programmes and ad-hoc external support.
- Deliver engineering excellence in the UK through our new apprenticeship programme and better sharing of best practices through the work of our Operational Excellence team.
- Invest in people development and upskilling to drive performance and improve retention and its associated costs and loss of know-how.
- Maintain or further improve our technical standards, across health and safety and food safety, through colleague training, targeted site investments, and sharing of best practices across the Group.

STRATEGY IN ACTION

In 2021, the UK Operational Excellence team trialled a portable multi-head weighing machine across several factories. Such automated weighers allow the distribution of food components across products with high speed and accuracy, leading to higher throughput, improved product consistency, lower material waste and labour cost savings. The trials allowed the team to de-risk the investment by understanding the benefit of the technology across a variety of use cases before committing to purchase permanent and customised versions of the machine.

KEY PERFORMANCE INDICATORS

We measure our progress through a number of financial and non-financial performance measures of which adjusted operating profit, UK employee turnover and adjusted EPS form the basis of our colleague incentive plans.

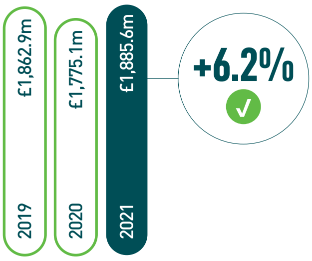
FINANCIAL KPIS

Performance

- ✓ Improved
- ✗ Worsened

Like-for-like revenue[1]

£1,885.6m



Link to Group Strategy: 1 2 3

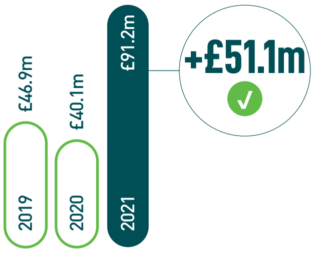
Adjusted operating profit[1,2]

£102.0m

Link to Group Strategy: 1 2

Free cash flow[1]

£91.2m



Link to Group Strategy: 1 2 3

	Like-for-like revenue[1]	Adjusted operating profit[1,2]	Free cash flow[1]
What are we measuring?	Revenue growth at a constant currency excluding acquisitions and closed and sold businesses.	The profit performance of the business based on operating profit excluding restructuring costs, asset impairments and those additional charges or credits that are considered significant or one-off in nature.	This is defined as the amount of cash generated by the Group after meeting all of its obligations for interest, tax and pensions and after purchases of property, plant and equipment (excluding development projects), but before payments of refinancing fees and other exceptional or significant non-recurring cash flows.
Why is it important?	The Group uses like-for-like revenue because it allows for a more meaningful comparison of revenue trends from period to period.	The Group manages the performance of its businesses through the use of adjusted operating profit as this measure excludes the impact of items that hinder comparison of profitability year-on-year.	The Group views free cash flow as a key liquidity measure as it indicates the underlying cash available to pay dividends, repay debt or make further investments in the Group.
How did we perform?	This increase was primarily due to the recovery in volumes as COVID-19 restrictions were eased during the period and is against a weaker comparative due to the impact of the pandemic on 2020 sales. In addition, the US business benefitted from growth with both new and existing customers in the traditional grocery retail and online channels and China volumes have recovered steadily.	Profitability improved across all three regions, reflecting the ramp up of the business following the easing of COVID-19 restrictions and the return in consumer demand, and we have largely been able to mitigate the impact of inflationary headwinds and industry-wide disruption.	The improvement is largely due to working capital improvements combined with the increase in operating profit for the year. In addition, tax paid has decreased by £10.0 million following higher payments in 2020. This was due to changes to UK legislation that required the estimated tax due for a financial year to be paid within that period and the cash benefit from the UK corporate tax super-deduction on investments since April 2021.
What are the key associated principal risks?	Reliance on a small number of key customers, Brexit, COVID-19 disruption, consumer behaviour and demand, disruption to Group operations and competitors. All of these risks could impact the Group's ability to achieve further revenue growth.	Raw material and input cost inflation, labour availability and cost, Brexit, COVID-19 disruption, disruption to Group operations, consumer behaviour and demand and competitors. All of these risks could impact the Group's ability to achieve further profit growth.	Raw material and input-cost inflation, labour availability and cost, Brexit, COVID-19 disruption, disruption to Group operations, consumer behaviour and demand and competitors. All of these risks could impact the Group's ability to generate further cash flows.

1 Alternative Performance Measures ("APMs"), including 'like-for-like', 'adjusted' and 'underlying', are applied consistently throughout the Annual Report and Accounts. The APMs are defined in full and reconciled to the reported statutory numbers in Note 36 of the Notes to the Consolidated Financial Statements.

See Risk Management and Risks on **pages 72 to 87**

See Financial Review on **pages 62 to 65**

See Directors' Remuneration Report on **pages 120 to 141**

Link to the strategic elements of our Group Strategy

1. UK: Drive returns by leveraging our UK #1 market position
2. International: Accelerate profitable growth in US and China
3. Excellence: Deliver superior performance through operational excellence
4. Trust: Be a trusted partner for our colleagues, customers, suppliers and wider communities

Adjusted earnings per share[1]

10.4p

Link to Group Strategy

1 2 3

The Group's underlying earnings calculated 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 exceptional items and the change in fair value of derivative financial instruments.

The Group uses this measure as it tracks the underlying profitability of the Group and enables comparison with the Group's peer companies.

Adjusted earnings per share increased by 1.7 pence to 10.4 pence in 2021 from 8.7 pence in 2020 which reflects the improvement in underlying trading in the period.

Raw material and input-cost inflation, labour availability and cost, Brexit, COVID-19 disruption, disruption to Group operations, consumer behaviour and demand and competitors.

All of these risks could impact the Group's ability to achieve further earnings growth.

Leverage ratio (net debt / adjusted EBITDA pre IFRS 16[1])

1.9x

Link to Group Strategy

1 2 3

The leverage ratio indicates the level of debt held by the Group. This is calculated by dividing operational net debt by adjusted EBITDA pre IFRS 16. Operational net debt excludes the impact of non-cash items and those liabilities recognised under IFRS 16 on the Group's statutory net debt and is comparable with the Group's free cash flow measure.

The leverage ratio must be below the maximum defined in the Group's bank debt facilities to ensure the facilities remain available as needed and also determines the interest margin payable on debt drawn.

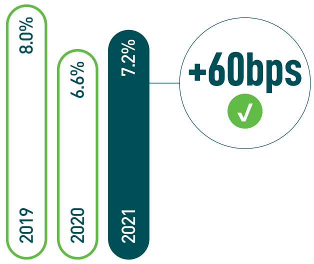
As a result of improved trading and a £39.7m reduction in operating net debt in 2021, the leverage ratio is now 1.9x and within our medium-term target range of 1.5x to 2.0x.

Treasury and pensions, strategic growth and change programmes.

These risks could impact the Group's ability to provide finance to achieve further business growth if the Group does not comply with the terms of its financing arrangements.

Return on invested capital ("ROIC")[1]

7.2%



Link to Group Strategy

1 2 3

This is calculated as adjusted operating profit after tax divided by the average invested capital for a rolling 52-week period to determine how effective the business is in generating returns from its asset base.

ROIC is considered to be a useful indicator of the amount returned as a percentage of shareholders' invested capital and can help analysts, investors and stakeholders to evaluate the Group's profitability and the efficiency with which its invested capital is employed.

The Group's ROIC increased by 60 basis points to 7.2% for 2021 due to the improved profitability across the Group combined with benefits of recent capital investments being realised, particularly in the US.

Raw material and input-cost inflation, labour availability and cost, Brexit, COVID-19 disruption, disruption to Group operations, consumer behaviour and demand and competitors.

All of these risks could impact the Group's ability to achieve further profit growth.

2 The Group's bonus scheme and long-term incentive awards are based on performance across a selection of three KPIs. See pages 126-127 in the Remuneration Report.

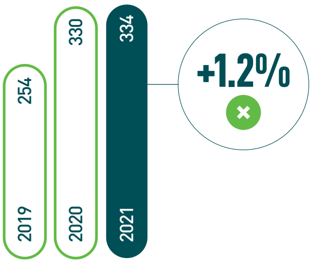
KEY PERFORMANCE INDICATORS
CONTINUED

NON-FINANCIAL KPIS

Performance
- Improved
- Worsened

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

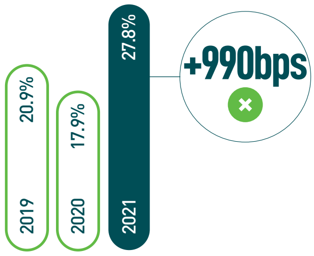
334



Link to Group Strategy
1 3 4

UK employee turnover[1]

27.8%



Link to Group Strategy
1 3 4

	UK accidents resulting in lost time >7 days (per 100k UK employees)	UK employee turnover[1]
What are we measuring?	The number of accidents that took place across our UK sites that resulted in affected colleagues taking more than seven days off work. It is calculated based on 100k colleagues to enable us to compare our performance to the latest data from the UK Health and Safety Executive ("HSE").	This is calculated by dividing the number of colleagues leaving the business (excluding fixed-term contracts and redundancies) against total headcount.
Why is it important?	We have a duty of care to colleagues in ensuring their health, safety and wellbeing. Our health and safety culture is based on a governance process driven by the Group Board and we have health and safety teams in place that define standards and monitor compliance with systems.	Our colleagues are our top priority and we must remain focused on being the local employer of choice for both existing and new talent. We recognise the importance of attracting and retaining a skilled and diverse workforce. Driving an improvement in employee turnover also creates efficiency by decreasing the amount of recruitment and induction activities required.
How did we perform?	Our rate of accidents that resulted in lost time of over seven days per 100k colleagues increased by 1.2% marginally compared to 2020. However, the absolute number of accidents reduced by 1. Slips and trips remain the single highest cause of accidents and we introduced a new standard of anti-slip wellington boots that are targeted to the needs of each site. We also introduced an increased standard of anti-slip factory flooring to improve the resistance to slips. Bakkavor continues to outperform the HSE Food Industry average (762 >7 day accidents per 100k employees) by 56%. Further information can be found on page 50.	In 2021, UK employee turnover increased substantially, reversing a positive trend seen in previous years. This is driven by an industry-wide increase in demand for labour, and consequentially an increase in pay rates, as the economy has recovered from the pandemic through 2021. The labour pool tightened as a result of Brexit and some of our non-UK colleagues returned to their home country during the pandemic and have not returned. We have implemented several initiatives to increase our recruitment and retention to help mitigate the high levels of vacancies and employee turnover. In 2021 we implemented an out-of-cycle pay increase to the majority of UK factory colleagues and provided additional benefits including free transport, referral bonuses, increasing flexibility in working patterns and upgraded site facilities. We have also invested in developing our talent, with two training programmes launched.
What are the key associated principal risks?	Health and safety. As part of our drive towards an accident prevention culture we continue to focus on minimising risk associated with workplace transport, machinery safety, electrical safety, as well as boiler and fire safety.	Availability, recruitment and retention of colleagues. Being able to retain skilled and committed colleagues is critical to delivering our strategic growth objectives.

1 The Group's bonus scheme and long-term incentive awards are based on performance across a selection of three KPIs. See pages 126-127 in the Remuneration Report.
2 FAO (2014) Food waste footprint. Full cost accounting (available at www.fao.org/3/a-i3991e.pdf).
3 Vermeulen, S. J., Campbell B.M., Ingram, J.S.I. (2012) Climate Change and Food Systems. Annual Review of Environment and Resources, 37, 195-222.

See Trusted Partner on **pages 34 to 53**

See Risk Management and Risks on **pages 72 to 87**

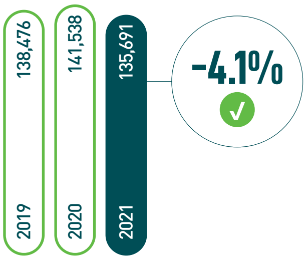
See TCFD on **pages 54 to 61**

See Directors' Remuneration Report on **pages 120 to 141**

STRATEGIC REPORT

Total Group net carbon emissions (tCO_2e)

135,691



Link to Group Strategy

1 2 4

Scope 1 and 2 net (market-based) emissions across the Group.

Climate change is a significant issue facing society and the Group. This is why we have made the commitment to reach Net Zero emissions across our Group operations by 2040.

We recognise we have a responsibility to mitigate our direct and indirect impacts on climate change. Our primary focus is on driving energy efficiency in our manufacturing operations.

The majority of our carbon emissions arise from the energy required for our factory sites' heating and cooling systems. Net (market-based) carbon emissions in the Group decreased by 4.1% in 2021, despite increased production volumes, driven by energy efficiency measures introduced in our UK operations. Group gross (location-based) emissions (that is, not including emissions avoided through our purchase of green electricity in the UK) also decreased by 6.1% and our Group intensity ratio (gross emissions per £m reported revenue) decreased by 10.0% to 92.6 tCO_2e as a result of increased operating efficiency.

In the UK, total net (location-based) emissions reduced by 15.0% compared to 2020, a reduction of 13,511 tCO_2e. The UK's intensity ratio also decreased by 15.6% to 71.8 tCO_2e/£m reported revenue versus 2020.

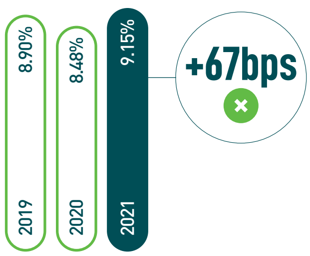
Historical emissions going back to 2018 have been restated (refer to data on pages 60 to 61.

'Climate change and sustainability'.

In 2021, we conducted a climate risk assessment of our business including scenario analysis. More detail on our climate change response can be found in the TCFD section on pages 54 to 61.

UK food waste (tonnes)

9.15%



Link to Group Strategy

1 3 4

Food waste as per the Food Loss and Waste Accounting and Reporting Standard ("FLW Standard"). Percentage food waste calculated as 'tonnes food waste divided by tonnes (food product produced or sold as intended plus food waste plus food sent to other destinations)'.

Approximately one third of all food produced is wasted or lost across the value chain[2]. As global food systems are responsible for approximately 30% of greenhouse gas emissions[3], tackling food waste is one of our sector's biggest responsibilities and a major opportunity to tackle resource constraints.

A key part of our food-waste strategy is to make the best possible use of any surplus food and food waste, whether it be through redistribution of surplus food and ingredients or for use in animal feed. In 2021, food waste increased by 67 basis points to 9.15%, largely driven by a return to pre-pandemic product ranges of higher complexity as well as challenges in accessing recycling markets. A dedicated task force has been established to redress this increase and ensure progress towards our target of halving 2017 food waste levels by 2030. Further information can be found in the Trusted Partner section between pages 34 to 53.

'Climate change and sustainability'.

This risk could impact our ability to achieve our commitment on food waste; in the UK we are committed to the industry initiative Champions 12.3 in halving food waste by 2030.

DIVISIONAL OVERVIEW

UNITED KINGDOM

OVERVIEW

The UK is Bakkavor's largest market, representing 85% of Group like-for-like revenue. Our combination of scale, category leadership and insight, operational excellence, and strong customer relationships drives our market-leading performance in the UK. We have 23 factories, four distribution centres, a growing unit and a head office in London, with over 15,800 colleagues.

We leverage our unrivalled consumer insight and scale to produce innovative food that offers quality, choice, convenience and freshness. This, combined with our operational excellence, sees us produce more than 1,500 short shelf-life products, the majority of which are delivered to our customers every day. We focus on strategic relationships with the largest UK grocery retailers which have long-term commitments to developing their fresh prepared food offer for consumers. Tesco, M&S, Sainsbury's and Waitrose are our largest customers, but we also supply all of the other UK grocery retailers.

UK FINANCIAL HIGHLIGHTS

£ million	2021	2020	Change
Reported revenue	**1,592.4**	1,566.6	1.6%
Like-for-like revenue[1]	**1,592.4**	1,548.2	2.9%
Adjusted operating profit[1]	**97.8**	90.7	7.8%
Adjusted operating profit margin[1]	**6.1%**	5.8%	30bps
Operating profit	**97.8**	69.1	41.5%
Operating profit margin	**6.1%**	4.4%	170bps

1 Alternative Performance Measures are referred to as 'like-for-like', 'adjusted' and 'underlying' and are applied consistently through this document. These are defined in full and reconciled in the reported statutory measures in Note 36.

TRADING PERFORMANCE

Robust financial performance despite industry-wide challenges

The UK delivered a 2.9% increase in like-for-like revenue to £1,592.4 million (2020: £1,548.2 million) despite industry-wide challenges (notably supply chain disruption and labour shortages) intensifying through the period with volumes constrained as a result. This performance represented a positive recovery in volumes as lockdown restrictions eased and demand for our fresh prepared products has remained strong since, with like-for-like revenue down only 2.3% compared to 2019.

The UK delivered a 7.8% increase in adjusted operating profit to £97.8 million (2020: £90.7 million), with margins up by 30 basis points to 6.1% (2020: 5.8%) and no exceptional items in 2021. This robust performance was delivered through a combination of sales growth, an acute focus on driving further efficiency and supply chain management, and a tight control of costs. Profitability was held back by inflationary pressures which accelerated towards the end of the year. However, our pricing models mean we are able to pass on the inflationary impact of key raw materials and we negotiate inflationary increases for other materials, packaging, freight and labour costs that sit outside of our cost models on a case-by-case basis. Following discussions with our customers, we are increasing pricing for 2022, in line with our expectations, which, alongside our ongoing efficiency drive, will help offset inflation in the costs which sit outside of our pricing models. Looking forward, with inflation pressures expected to persist and in certain instances heighten in the near term, we expect to continue the dialogue with our customers around pricing through 2022.

Whilst working hard to contain the impact of cost pressures and labour challenges, we have ensured our operational delivery has remained strong, as evidenced by a consistent and high-level performance across health and safety, food safety, quality, and service.

CATEGORY UPDATE

Overall, we have seen a positive recovery in the FPF market post-pandemic. All our categories are in growth compared to 2019 apart from salads, which faced production constraints in 2021. We remain focused on driving an exciting pipeline of activity to bring innovation to our categories, with the launch of over 340 products in 2021, but in a controlled and disciplined way given the wider industry challenges. For a small number of sub-categories, we have taken the decision to focus on core ranges to ensure we maintain our customer service levels and manage our labour requirements.

Whilst performance in our **meals** category in the first quarter was adversely impacted by lockdown restrictions, volumes recovered well as restrictions eased into the summer, against a weaker comparative period. This growth was primarily driven by ready meals, supported by strong underlying performance, new product launches and seasonal events. We have, however, taken the decision to exit several lower margin modern-deli category lines, which have traditionally peaked in the summer and at Christmas. Whilst this improves our ability to utilise our year-round capacity going forward, the reduction in volumes combined with the disruption associated with labour shortages and supply chain challenges, has resulted in the meals category contributing a lower level of sales in the second half of the year.

Our **salads** category has seen a significant recovery in demand versus the prior year, driven by the return in frequency of shopping visits and mobility through the year. The seasonal summer peak in salads always requires an increase in labour, however the pace of growth post-lockdown combined with increasing challenges in labour availability meant we were unable to meet all demand in this period. We made the decision to focus on maintaining our high customer service levels by delivering a reduced number of products and successfully executed the launch of over 60 products to refresh the whole salads range for one of our strategic customers. Whilst food-to-go remains down compared to 2019, we have seen a natural strengthening of the category and demand remained strong through the rest of the year.

In our **desserts** business, performance has been strong compared to both 2020 and 2019. This performance reflected the decision we made in the summer, in the context of labour challenges, to deliver a more focused all-year-round product range and protect the delivery of our seasonal products for the important Christmas period, which we have successfully executed. The launch of The Delicious Dessert Company brand is delivering what we set out to do: bringing new, younger consumers to the category. This range has been rolled out to 900 stores across two strategic customers in the second half of the year and we are looking to expand the product range further.

Demand for **pizza and bread** remains robust, with significant growth compared to 2019 and a positive year-on-year performance versus 2020 despite lapping strong comparatives. This was driven by good growth in flatbreads and premium pizza ranges, as the increase in demand during the pandemic has held up as restrictions have eased. Whilst promotional dynamics have changed in this category, the demand for our range of products remains strong.

STRATEGIC AND OPERATIONAL ACTIONS

Our full-year performance is testament to the robust foundations we have laid down, with scale, category leadership and strong relationships with customers that are committed to driving sales of fresh prepared food through their store networks and online channels. This positioning has enabled us to successfully navigate the recent unprecedented industry-wide challenges. However, we remain highly focused on mitigating these ongoing challenges which emerged with the UK's exit from the European Union ("EU") and accelerated with the onset of the pandemic, including supply chain disruption and labour shortages.

We have successfully minimised any disruption related to the UK exiting the EU to date. Our detailed planning process ensures ongoing compliance, and we are well prepared to navigate the further administrative changes still to come. Our inbound logistics platform in Spain continues to ensure our import process works smoothly, and we remain well prepared for the changes that were due in the second half of 2021 but have been delayed to 2022.

We continue to work collaboratively to ensure our customers remain well stocked with our high-quality products, whilst agreeing appropriate pricing in the context of cost inflation. To date, we have been relatively unaffected by the disruption to distribution across the industry, and we have continued to support our customers who manage outbound distribution from our factories to stores.

The recruitment and retention of colleagues remains a significant challenge for the Group, with certain regions experiencing particularly heightened labour shortages. We have taken several steps to mitigate the current labour constraints, including enhancing our recruitment programme, offering flexible shift patterns, the use of apprenticeship programmes, referral bonus schemes, and further investment in colleague training, facilities, transport and wellbeing. We also took the decision, after an in-depth benchmarking of our factory labour rates across the country, to implement an out-of-cycle pay increase to the majority of our factory-based colleagues. The impact of this significant investment has been supported by customers through revised pricing. Whilst labour shortages remain a challenge, we are doing all we can to create a better place to work and position the Group as an attractive employer.

Alongside our efforts to mitigate labour constraints, we have been investing in automation and continuous process improvement throughout the year to enhance productivity. We have increased resource behind our operational excellence team to ensure we maintain pace in delivering on our efficiency investments and develop a strong pipeline of projects, focused on reducing the reliance on labour. Importantly, the recent roll-out of the new automated 'smart' manufacturing system (a Management Control Reporting System) across our UK sites is providing us with highly detailed factory data upon which to make investment decisions that will maximise performance.

Looking forward, we expect to continue to deliver growth in the UK as demand for our fresh prepared products remains strong. However, as the industry-wide operational challenges and inflationary headwinds are expected to persist through 2022, we expect further engagement with our customers, to recover pricing, will be required. We are confident that, with our strong relationships, experience, and relentless focus on operational excellence, we will continue to manage and mitigate these pressures effectively.

DIVISIONAL OVERVIEW CONTINUED

UNITED STATES

OVERVIEW

Our US business represents c.10% of Group like-for-like revenue. Bakkavor has operated in the US for 13 years and we have developed a strong understanding of the market, its growth potential, and our key target customers. The Group has five factories across the US and a head office in Charlotte, with over 850 colleagues. We produce over 350 products across our core categories of fresh meals, dips, artisanal breads, burritos and soups and sauces.

In the US, we have focused our attention on innovation and investment in high-performing categories. We continue to enhance our strategic partnerships with both new and existing customers and prioritise capital investment projects that will allow us to increase capacity and drive operational performance. The US remains a significant growth opportunity for the Group.

US FINANCIAL HIGHLIGHTS

£ million	2021	2020	Change
Reported revenue	**180.1**	146.5	22.9%
Like-for-like revenue[1]	**193.0**	146.5	31.8%
Operating profit	**8.9**	0.6	1,383.3%
Operating profit margin	**4.9%**	0.4%	450bps

1 Alternative Performance Measures are referred to as 'like-for-like', 'adjusted' and 'underlying' and are applied consistently through this document. These are defined in full and reconciled in the reported statutory measures in Note 36.

TRADING PERFORMANCE

Significant revenue growth and margin expansion despite labour and inflationary headwinds

In 2021, we continued to build on the commercial and operational progress made in the last two years. We further enhanced our strategic customer relationships in traditional grocery retail and online channels, and underpinned our platform for growth with investment to unlock capacity across our existing footprint. As a result, we continued to see positive momentum through the period, supported by growth with our strategic customers through national supply contracts, range expansion and increased product penetration. Reported revenue increased by 22.9% to £180.1 million and increased 31.8% on a like-for-like constant currency basis to £193.0 million.

We are realising the benefits of the commercial and operational reset that concluded 18 months ago, with an £8.3 million increase in operating profit to £8.9 million, and a significant step up in margin to 4.9% (2020: 0.4%). Margins were, however, held back by significant inflationary pressure as we moved through the year. This was notably a result of increases in labour rates, both regulatory and through our own out-of-cycle reset of wage rates, as well as inflation, most significantly in proteins, packaging, and distribution costs.

Nonetheless, our simplified portfolio and improved operational-efficiencies underpinned operational gearing as volumes increased, and utilisation rates at our newly-invested manufacturing footprint picked up meaningfully.

STRATEGIC AND OPERATIONAL ACTIONS

In the US, consumer demand for fresh and convenient meals and other fresh prepared food continues to accelerate. Retailers are increasingly looking to differentiate themselves through own-label offerings, and as a leading supplier we are driving growth in this market.

The US business achieved excellent growth in fresh meals, supported by the successful nationwide roll-out of a range of meals to over 500 stores for a new strategic customer and continued growth with our e-commerce customers. We have delivered a strong pipeline of innovation through the year, bringing more healthy products to market such as the launch of a range of low carbohydrate meals, as well as providing convenient larger-format meals for families. We have also broadened retailers' own-label fresh food ranges, with the launch of complementary burritos, soups and artisan bread.

Whilst industry challenges intensified through the year, the business has delivered a strong operational performance in the US, accommodating a significant increase in volumes with minimal disruption. To secure the increase in headcount needed to support the level of growth, we have adapted our approach to colleagues by increasing wage rates and introducing new incentives, reviewing wage rate differentials, and investing in our site facilities to provide a more attractive working environment.

We have also experienced significant input cost inflation in the period. However, there is an acknowledgement by our customers that the issues are unprecedented and industry-wide; through an open and constructive dialogue we have successfully secured price increases in the latter part of the year. The short-term lag in passing these costs on to customers has held back our margin in the period.

During the year, we completed investment at our Charlotte and Carson sites, providing the capacity to meet increased demand for our fresh meals. The investment to enhance our houmous processing capability and capacity at Carson continues to progress well.

Looking ahead, we remain well placed to capitalise on the significant growth potential in the US market. We are focused on stabilising our workforce and enhancing our internal operational structures to support the growth of our business and drive operating leverage to further improve margin. Our existing footprint will require further investment over the coming years to increase capacity, and with this investment we believe these sites can deliver $500m in revenue.

CHINA

OVERVIEW

Our China business represents 5% of Group like-for-like revenue. From operating within the region for over 15 years we have developed a strong understanding of this nascent market and its significant growth potential. We have nine factories, one farm, and a head office in Shanghai with over 2,200 colleagues. We primarily supply large foodservice customers with over 1,300 products across food-to-go salads, sandwiches and wraps, and bakery categories.

2021 has been a period of recovery following the impact of the COVID-19 pandemic. Although ongoing regional restrictions impacted our sales, we continued to build on our strategic customer relationships with western foodservice players and are developing our presence in both retail and office catering. With strategic investment across our footprint largely complete, we have significant headroom for growth, providing customers with our innovative fresh prepared food.

CHINA FINANCIAL HIGHLIGHTS

£ million	2021	2020	Change
Reported revenue	**99.1**	80.4	23.2%
Like-for-like revenue[1]	**100.2**	80.4	24.6%
Operating loss	**(4.7)**	(7.7)	39.0%
Operating profit margin	**(4.7%)**	(9.6%)	490bps

1 Alternative Performance Measures are referred to as 'like-for-like', 'adjusted' and 'underlying' and are applied consistently through this document. These are defined in full and reconciled in the reported statutory measures in Note 36.

TRADING PERFORMANCE

Steady recovery and margin improvement, moderated by short-term headwinds

Whilst China has largely recovered from the pandemic, it continues to see periodic impacts from regional lockdowns, with like-for-like revenue down 2.4% compared to 2019. The significant like-for-like revenue growth in 2021 of 24.6% to £100.2 million, and reported revenue growth of 23.2% to £99.1 million, reflected strong growth in Bakery, Hong Kong and new channels, partially offset by reduced volumes from certain foodservice customers. We maintain a positive outlook for continued growth in 2022 and beyond.

Whilst the business remains loss making from an operating profit perspective, it has delivered positive EBITDA and operating losses have reduced considerably with the steady recovery in volumes. However, inflationary headwinds and the adverse impact of weather on seasonal produce have held back margin improvement in the second half, with pricing on leaf crops alone over three times the historical market rate. Our strategic investments for growth in the region are nearing completion, with the new site in Wuhan operational since April 2021 and Xi'an due to complete in the second quarter of 2022.

STRATEGIC AND OPERATIONAL ACTIONS

In China, consumer demand for fresh, convenient and healthy products across all channels has accelerated. We continue to be well-positioned to capitalise on this opportunity, and in 2021 we launched over 550 products and delivered significant progress on new channel opportunities. In 2021 we were awarded the supply of a range of food-to-go products for a large campus canteen and delivered strong growth with a strategic retail customer through range expansion and store roll-out, as well as launching two healthy breakfast items for a large coffee chain and introducing meat alternatives to our sandwiches and wraps for strategic customers. We will continue to target new channel opportunities for growth with our existing range of fresh, great-tasting food.

The Bakery business has benefitted from our recent capacity investment and continued to develop its customer base, particularly with online players, and Hong Kong performance rebounded in 2021 from April onwards through a combination of volumes returning as lockdown restrictions eased and new customer wins, as well as continuing to roll-out our Fresh Kitchen branded retail counters.

While our post-pandemic recovery steadily improved through the first half of the year, continued local lockdowns and the impact of adverse weather on leaf crops has hampered performance. The stringent government restrictions have resulted in regional lockdowns and meant our key customer stores, often located in more tourist and travel-centric areas, have had to close periodically, with resulting volatility in demand that has held back sales and presented operational challenges. Further, it was in the summer, typically our seasonal peak in sales, when the leaf crop was particularly affected by weather. The lower-quality produce meant yield was reduced, with a knock-on impact on operational efficiency and inflationary pressure, the impact of which was exacerbated as we were required to purchase additional volume outside of our contracted volumes. While labour also continues to remain a challenge, and we are facing over 10% inflation in wage rates, we have continued to work collaboratively with our customers and suppliers to successfully manage these challenges and maintained 100% service levels across our customer base. We have put in place several measures to mitigate the impact, including expanding our recruitment pool and continuing to focus on automation opportunities across the business. We expect inflationary pressures across labour and raw materials to persist in 2022 but will continue to use a number of levers to reduce the impact on our cost base through new product development, operational efficiency and customer price discussions.

Our significant strategic investments in the region are nearing completion, providing an enhanced national platform for future growth with broader supply capabilities. We successfully transferred production to the new replacement site in Wuhan in April 2021 and work on the new site in Xi'an is progressing well, with a slight delay due to government restrictions on construction in the region; Xi'an is now due to complete in the second quarter of 2022. This will provide a well-invested and solid platform for growth with plentiful capacity to capture the meaningful growth opportunity within the Chinese market; we expect operational leverage to increase significantly as demand continues to recover.

Overall, we are well placed to drive further growth with our existing key customers as they continue to expand their store footprint and capitalise on new channel opportunities as we diversify our customer base. While inflationary headwinds and the impact of COVID-19 are expected to persist in 2022, with our investment in capacity expansion nearly complete, we have built a strong platform for growth.

Trusted Partner: our ESG strategy

Trusted Partner is our ESG strategy that guides our progress towards building a more sustainable business, defining our action on the issues that matter most to our stakeholders – across our supply chain, our own operations, and in our workplaces and communities.

Trusted Partner was developed in 2019 following a materiality assessment to help determine the sustainability issues that matter most to our business. We considered the priority topics for the food manufacturing sector that are critical to sustainable development and where we can have most impact, as well as those that will be essential for our business in creating long-term value. We also consulted internally, reviewed the priorities of our stakeholders, and cross-referenced against external sustainable development frameworks such as the UN Sustainable Development Goals ("SDGs"), the UN Guiding Principles on Business and Human Rights and the recommendations from industry organisations such as IGD (Institute of Grocery Distribution). The outcome of the materiality assessment informed the three focus areas of our Trusted Partner framework and are reflected in our commitments. Our material issues are also considered as part of our ongoing risk assessment, with each issue linked to the relevant principal risk.

We will review our material issues in 2022 to ensure that the strategy and focus areas remain relevant.

We seek to align with global standards and frameworks. We have mapped how our Trusted Partner strategy supports the UN SDGs on our website (www.bakkavor.com/en/esg/sustainable-development-goals).

This section summaries our Trusted Partner strategy and progress in 2021, as well as our priorities for 2022. Specifically in relation to climate change, we have voluntarily reported under the recommendations of the TCFD, and this is captured in the TCFD section of this report on pages 54 to 61, which includes all data on greenhouse gas emissions. All other supporting non-financial data is on pages 49 to 53. All data shown is for the calendar year 2021 and at a Group level, unless specified. Further information on our approach and activities can be found at www.bakkavor.com/esg.

CONTACT ADDRESS FOR ESG AND SUSTAINABILITY ENQUIRIES
ESG@bakkavor.com

See our TCFD section on **pages 54 to 61**

ESG: Making Bakkavor a more resilient business

A REVIEW OF OUR ESG PROGRESS FROM DONNA-MARIA LEE, CHIEF PEOPLE OFFICER

The challenges of 2020 saw the COVID-19 pandemic place a huge amount of strain on our business, colleagues, customers, suppliers, and communities. In 2021, we focused on building the resilience we needed to tackle the recovery from the pandemic, and pressing social and environmental challenges.

Our climate change roadmap continues to be a primary focus. After laying down our commitment to achieve Net Zero emissions in our Group-wide operations by 2040, we had to quickly embed this goal within our business. This continues to involve bringing together key stakeholders from across the business to understand what this commitment means for our long-term strategy, energise thinking around our approach, and planning our roadmap and the roll-out of this across the business to support delivery.

> Our cross-functional ESG Executive Committee is re-energising our Trusted Partner agenda and enhancing accountability for our goals.
>
> **Donna-Maria Lee**
> Chief People Officer

Our roadmap – which you can read about on page 59 in our TCFD report – is a work in progress, but gives us the structure we need to work towards our goal. Going forward, we will build granularity in the form of additional targets, objectives and innovative strategies for meeting our goals. We will also share more about what we are learning along the way. The lead-up to the COP26 climate conference and subsequent outcomes demonstrate the urgency of tangible action from all sectors of society, and we are committed to playing our part. We are seeing positive progress in this area operationally, as our net greenhouse gas emissions decreased by 4.1% on 2020, and our emissions intensity ratio (emissions per £million revenue) reduced by 10.0%.

Another area of focus in 2021 has been re-energising our environmental and social agenda, and enhancing accountability for our goals. We have done this through setting up our ESG Executive Committee; a cross-functional group of senior leaders who cascade our Trusted Partner strategy across the business and embed our ambitions and activities in their day-to-day roles.

I am particularly proud of the way our business has enhanced our close working relationships with our suppliers by increasing engagement on environmental and ethical issues. Our ability to reach out to the hundreds of organisations we source from globally and ensure we are aligned on our ESG criteria truly demonstrates how responsible sourcing is central to how we do business and core to our values.

Finally, we've made big strides with our people agenda this year. I've been fortunate to have actively participated in both our Wellbeing Steering Committee and our I&D Forum. Alongside the rest of our industry, we have faced significant challenges in the labour market and turnover rates. Nevertheless, I have witnessed first-hand how much passion there is for making Bakkavor an equal, inclusive and engaging workplace, and remain confident that we can overcome these challenges and continue to uphold Bakkavor as a place where everyone can thrive. This has also been reflected in the evolution of our Group values, with further information available on page 16.

Now more than ever it is clear that our Trusted Partner strategy underpins a more resilient Bakkavor for our colleagues, communities, suppliers, customers and other stakeholders. In 2022, we'll take a fresh look at the issues it encompasses and reset our commitments to ensure we continue to deliver value, be ambitious and progress on our journey.

D. M. Lee

Donna-Maria Lee
Chief People Officer

TRUSTED PARTNER SUMMARY

Our Trusted Partner ESG strategy is based around three focus areas: Responsible Sourcing in our Supply Chain, Sustainability and Innovation in our Operations, and Engagement and Wellbeing in our Workplaces and Communities.

RESPONSIBLE SOURCING IN OUR SUPPLY CHAIN

We source thousands of ingredients from over 500 suppliers across more than 50 countries.

Responsible sourcing in our supply chain involves working with growers and partners and using our influence to promote a shared understanding of the importance of respecting human rights, environmental risks, and ingredient integrity.

OUR KEY COMMITMENTS

- Zero net deforestation through sustainable sourcing practices for our UK business's forest-risk commodities.
- Expand our human rights and environmental risk mapping for our US and China businesses.

See **pages 40 to 41**

OUR PROGRESS IN 2021

Environmentally Sustainable Sourcing and Supply Chain Human Rights

- Supplier Code of Conduct launched to over **500** direct suppliers to Bakkavor UK.
- **100%** of these suppliers engaged with on environmental and social issues.
- All direct suppliers to the UK business are registered with Sedex.
- Launched **Deforestation Statement** (https://www.bakkavor.com/en/esg/policies-and-documents/), outlining our UK business's commitment to zero net deforestation, and our sustainable sourcing practices for palm oil, soy in animal feed and paper packaging.

SUSTAINABILITY AND INNOVATION IN OUR OPERATIONS

With 46 sites across the UK, US and China, we have a responsibility to continuously improve the environmental impact of our sites.

This focus area encompasses how we manage the impacts of our direct operations and products: food waste, resource efficiency and emissions, packaging and sustainable product development.

OUR KEY COMMITMENTS

- Net Zero operational emissions across the Group by 2040.
- Halve our UK food waste by 2030 as part of our commitment to Champions 12.3.
- Actively engage each of our UK and US sites to maximise the suitable surplus food available for redistribution (2022).
- Eliminate unnecessary plastic packaging; using only reusable or recyclable plastic packaging and at least 30% average recycled content in plastic packaging by 2025.

See **pages 42 to 44**

See our TCFD section on **pages 54 to 61**

OUR PROGRESS IN 2021

Resource Efficiency and Net Zero

- **6.1% reduction** in our gross (location-based) carbon footprint (Scope 1 and 2), and a **4.1% decrease** in our net (market-based) carbon footprint.
- **10.0% improvement** in the carbon efficiency of our production, as our Group intensity ratio reduced to 92.6 gross tCO_2e/£m reported revenue.
- UK gross emissions reduced by **14.2%** and emissions intensity ratio decreased by **15.6%** to **71.8** tCO_2e/£m reported revenue from 85.1 in 2020.
- **55%** reduction in energy use from lighting being delivered through our continued roll-out of LED lighting at sites.

UK Food Waste

- **9.15%** food waste, up from 8.48% in 2020, driven by a return to pre-pandemic product ranges and access to recycling markets. A dedicated task force has been established to ensure we deliver our target of halving food waste by 2030.
- **More than doubled** food donations to charities compared to 2020, distributing the equivalent of 412,643 meals (based on a 420g portion).

Impact of Packaging

- **Almost 400** tonnes of plastic packaging removed in our UK business and total volume of plastic and product packaging reduced by **3%** (704 tonnes).
- **99.8%** of our UK product packaging is recyclable.

Sustainable Product Development

- **50%** of our UK business's product ranges are vegetarian and **almost one in five (19%)** are vegan or plant-based.
- **>60%** of our UK products are healthier options as defined by the Department of Health's UK Nutrient Profiling Model and **83%** are already compliant with the Food Standard Agency's salt reduction targets for 2024.

ENGAGEMENT AND WELLBEING IN OUR WORKPLACES AND COMMUNITIES

It is essential for us to provide a safe and inclusive environment for our colleagues where everyone can thrive and develop.

The health and safety of our colleagues is, and always will be, our top priority.

We foster a culture that guarantees fair labour rights and ethical employment.

We also aim to provide an environment where colleagues can thrive, and feel that their broader wellbeing is being supported.

In order to have a positive impact on our local communities, we support the causes that matter most to us.

OUR KEY COMMITMENTS

- Continue our commitment to health and safety, targeting zero serious accidents across the Group.
- Continue to out-perform UK industry averages on major and >7 day accident rates.
- Be recognised by our colleagues as supporting them to achieve positive wellbeing.
- Drive awareness and action on the issue of modern slavery.
- Promote an inclusive working environment, where differences are valued and individuals feel they can be themselves, without judgement.
- Reduce our employee turnover.

See **pages 45 to 48**

OUR PROGRESS IN 2021

Colleague Wellbeing, Health and Safety

- **1%** year-on-year increase in UK >7 day accidents per 100k employees, and a **16%** increase in major accident rate (per 100k employees). Despite this, both remain well below industry averages and total accidents are **down by 8%**.
- **>50%** reduction in recordable accidents in the US, and no reportable major accidents.
- **23%** increase in reportable incidents in China, but zero major accidents.
- **Eight** wellbeing campaigns launched.

Responsible Recruitment and Employment

- Rated as 'Advanced' in Stronger Together's organisational performance assessment of how we address modern slavery risk in our business.
- All our UK sites are classified as 'low risk' on Sedex's SAQ.

Engagement, Development and Retention

- **3 percentage point** increase in median gender pay gap, with plans to address this through a focus on female talent development in 2022.
- **42%** of our Senior Executives are women, up from 32% in 2020.
- **#1** ranked apprenticeship programme in TheJobCrowd's survey in the Consumer Goods & FMCG sector.

Local Causes and Community Engagement

- **>£90,000** of charitable donations, including to our Group charity partners Action Against Hunger and FareShare.
- **New three-year** charity partnerships launched in the UK with GroceryAid and the Natasha Allergy Foundation, and in the US with four local foodbanks.

Headline priorities for 2022

- Further develop our operational roadmap to Net Zero, setting interim targets to guide our progress and hold us accountable and continue to reduce operational emissions through efficiency measures Group-wide.
- Update our Trusted Partner ESG strategy, reviewing our material issues and resetting our ambition and accountabilities.
- Implement operational programmes to make step changes in reducing our food waste, getting back on track to our goal of a 50% reduction by 2030.
- Further expand our responsible sourcing and supplier engagement tools with our international businesses.
- Continue our focus on Inclusion and Diversity through female talent development and supporting the I&D agenda through events, awareness raising and our partnership with GroceryAid.

TRUSTED PARTNER
CONTINUED

MANAGEMENT AND GOVERNANCE OF TRUSTED PARTNER

In 2021, we sought to further embed our Trusted Partner strategy across the business by enhancing governance and increasing accountability, which is summarised below. Detail of the governance in place in relation to climate-related issues is captured in the TCFD section on pages 54 to 61, and the Group's overall governance framework is in the Corporate Governance Compliance Statement on pages 91 to 92.

GROUP BOARD

- Accountable for ensuring the impact of ESG issues on the long-term strategy of the Group are considered.
- Review of Group policies and commitments, including the Net Zero target, non-financial KPIs, progress and approach.

2021 update:

- Received quarterly updates on the Group's ESG performance and reviewed commitments and policies on ESG matters.
- Received dedicated ESG training on a range of topics including climate change, biodiversity and social matters.
- We will continue to build on the Group Board knowledge and skills matrix, and incorporate a broader range of topics during 2022.

For more information on Group Board competencies see pages 94 to 96.

ESG Board level sponsor: Agust Gudmundsson, Chief Executive Officer

NOMINATION AND ESG COMMITTEE

- Dedicated Board-level committee for ESG matters.
- Reviews Trusted Partner strategy progress and provides guidance to the ESG Executive Committee and recommendations to the Group Board.
- Umran Beba appointed designated Non-executive Director for ESG matters. Updates Group Board on all ESG matters, including the Committee's oversight of the execution of the Group's Trusted Partner strategy.

Chair: Simon Burke, Non-executive Chairman

AUDIT AND RISK COMMITTEE

- Review principal risk, 'Climate change and sustainability' and reporting under TCFD regulations and ensure that ESG issues are adequately reflected in other connected principal risks (see pages 78 to 86).
- Ensure ESG risks are considered in the Group's viability assessment and impairment reviews, and that financial reporting disclosures of these risks are fair and balanced.

Chair: Jane Lodge, Independent Non-executive Director

REMUNERATION COMMITTEE

- Reviews the potential linking of performance to incentives and remuneration.

Chair: Denis Hennequin, Senior Independent Non-executive Director

MANAGEMENT BOARD

- Oversight of ESG strategy and performance against commitments.
- Receives updates from the ESG Executive Committee on ESG performance and related risks.
- Directs strategic implementation of, and capital allocation for, strategic projects supporting the Trusted Partner objectives.
- Leadership of ESG is with Donna-Maria Lee, CPO, supported by CEO at Group Board.

ESG EXECUTIVE COMMITTEE

- Formalised in early 2021. Provides direction and manages the delivery of our Trusted Partner strategy. Co-ordinates the 16 workstream activities.
- Reviews and acts on information and performance on ESG-related matters affecting the business. Identifies financial resources required to meet commitments.
- Considers and assesses ESG risks insofar as they relate to principal risks where Committee members are owners of principal risks.
- Comprised of Senior Executives and other senior-level experts from Corporate Affairs, Procurement, Technical, Operations, Legal, Risk, Finance, Commercial and regional business divisions.

Chair: Sally Barrett-Jolley, Head of Corporate Affairs

INTEGRATING ESG WITH OUR RISK MANAGEMENT

The importance of environmental and social issues are such that many of them are connected to our principal risks. We have integrated our identified material environmental and social issues within how we review and update our principal risks in our Group risk management framework, as shown below. For more information on Bakkavor's governance and management of risks, see pages 72 to 87.

ESG FOCUS AREA	ESG ISSUES	PRINCIPAL RISK
RESPONSIBLE SOURCING IN OUR SUPPLY CHAIN	**1** Supply Chain Human Rights	• Climate change and sustainability
	2 Environmentally Sustainable Sourcing	• Climate change and sustainability
	3 Ingredient Traceability and Integrity	• Food safety and integrity
SUSTAINABILITY AND INNOVATION IN OUR OPERATIONS	**4** Food Waste	• Climate change and sustainability
	5 Resource Efficiency and Emissions	• Climate change and sustainability
	6 Impact of Packaging	• Climate change and sustainability
	7 Sustainable Product Development	• Consumer behaviour and demand
ENGAGEMENT AND WELLBEING IN OUR WORKPLACES AND COMMUNITIES	**8** Colleague Wellbeing, Health and Safety	• Availability, recruitment and retention of employees • Health and safety
	9 Responsible Recruitment and Employment	• Availability, recruitment and retention of employees
	10 Engagement, Development and Retention	• Availability, recruitment and retention of employees
	11 Local Causes and Community Engagement	• Availability, recruitment and retention of employees

TRUSTED PARTNER CONTINUED

RESPONSIBLE SOURCING IN OUR SUPPLY CHAIN

Responsible Sourcing in our Supply Chain encompasses three distinct but related issues: supply chain human rights, environmentally sustainable sourcing and ingredient integrity.

In manufacturing high-quality, innovative and freshly prepared food, we source thousands of ingredients from over 500 direct suppliers across more than 50 countries. We work openly and in partnership with our suppliers to communicate our expectations on human rights, environment sustainability and ensure ingredient integrity.

We have a clear responsible sourcing strategy, which is overseen by a dedicated Steering Committee and reports to our ESG Executive Committee. We have developed a bespoke supplier risk management system using both supplier data and global intelligence sources.

All direct suppliers are required to sign up to our Supplier Code of Conduct, which outlines the important areas and standards that we expect our suppliers to meet and forms part of our supplier selection process. These areas include human rights, ingredient integrity and environmental sustainability. Targeted questionnaires completed by each supplier allow us to understand where the risks in our supply base are and enable us to work with our suppliers to manage and mitigate these risks. We recognise that compliance with these standards can be demanding, and we are actively working with our supplier partners to achieve full compliance within agreed timeframes.

SUPPLY CHAIN HUMAN RIGHTS

The complexity and pace of the global food supply chain places it at risk of human rights abuses. Ensuring the welfare and rights of workers throughout our supply chain is a top priority for our business, and a central element to our responsible sourcing approach.

KEY COMMITMENTS

- Work collaboratively with our suppliers on any breaches of our Code of Conduct to develop and implement a clear and appropriate corrective action plan (ongoing).
- Empower worker voice and collaborative dialogue within our direct supply chain by promoting independent whistleblowing channels and effective grievance reporting mechanisms (UK: 2022, China and US: 2024).

The Supplier Code of Conduct covers issues that include modern slavery, migrant labour, child labour, working hours, discrimination, freedom of association, collective bargaining, land rights, bribery and corruption, environmental impact, and other important topics. Suppliers are required to demonstrate compliance with the Code of Conduct through self-assessment questionnaires and we seek corrective actions where required. 'Retain and engage' is our preferred approach and in 2021, we engaged with over 500 direct suppliers on their compliance. We have collaborated with a small proportion of suppliers, who did not initially meet our requirements, agreeing action plans to deliver the improvements necessary to ensure that they all now meet the requirements of our Code of Conduct. Doing so has reduced risk for Bakkavor, our customers and the suppliers themselves, encouraging a more resilient, collaborative, and transparent supply chain.

ENVIRONMENTALLY SUSTAINABLE SOURCING

Procuring the raw materials that we use as sustainably as possible, with regard for impacts on the land, water and biodiversity in their growing and production, not only ensures care for the planet, but improves the resilience of our supply chain.

KEY COMMITMENTS

- Zero net deforestation for our key forest-risk commodities: palm oil, soy, paper, beef and cocoa, through our responsible sourcing strategies.

In 2021, we made a commitment to zero net deforestation, as outlined in our Deforestation Statement, for the forest-risk commodities: palm oil, soy, paper, beef and cocoa. We have specific sourcing approaches for high-risk raw materials, such as sourcing only 100% sustainably sourced palm oil and supporting the production of sustainable soy through the purchase of credits for 100% of our embedded soy footprint, (that is, used as feed in animal products). As an own-label manufacturer, we implement our customers' commitments, such as sourcing through commodity-specific sustainability standards including the Rainforest Alliance and the Marine Stewardship Council ("MSC").

More information can be found on our website at: www.bakkavor.com/en/esg/responsible-sourcing.

INGREDIENT INTEGRITY

Our success in continuing to deliver products of the highest quality to our customers is built on trust in our ability to consistently deliver high standards of raw material integrity and traceability.

Our food safety and integrity approach aims to minimise the risks of unauthorised or unsafe food ingredients entering the Bakkavor manufacturing chain, a practice known as 'food fraud'.

Our strategic approach relies on gathering intelligence from a variety of sources. Verification processes include laboratory analysis, traceability checks and audits of materials where claims are made. Our governance process includes supplier audits and/or investigations to manage the variety of materials we source from across the world. In 2021 we almost doubled the number of traceability checks and tests conducted compared to 2020.

Where we identify high-risk ingredients, we work directly with our suppliers to understand their control systems, share best practice, and reduce the risk of fraud and adulteration in our global supply chain.

More information on our approach to food integrity and food safety can be found on www.bakkavor.com/en/about-us/business-activities/ensuring-safety-and-quality.

TRUSTED PARTNER
CONTINUED

SUSTAINABILITY AND INNOVATION IN OUR OPERATIONS

This focus area encompasses how we manage the impacts of our direct operations and products. It comprises four ESG issues: food waste, resource efficiency and emissions, impact of packaging and sustainable product development.

With 46 sites across the UK, US and China, we have a responsibility to continuously improve the environmental impact of our operations by minimising waste and using resources more efficiently. In addition, we work in partnership with our customers to continually improve the sustainability of our products by improving packaging design, using more sustainable packaging alternatives and innovating to develop lower environmental impact products.

READ MORE
BAKKAVOR.COM/EN/ESG/SUSTAINABILITY-AND-INNOVATION

FOOD WASTE

Globally, food waste contributes between 8% and 10%[1] of total man-made GHG emissions and remains a major priority for our business and the food sector as a whole. We have been measuring our food waste since 2017 using the principles and template of the 'Target, Measure, Act' toolkit developed by the non-profit organisation WRAP and the IGD.

KEY COMMITMENTS

- Continue working towards our Champions 12.3 target of reducing food loss by preventing it at each of our sites, whilst measuring and reporting our progress annually (2030).
- Actively engage each of our UK and US sites to maximise the suitable surplus food available for redistribution (2022).

Our approach to reducing food waste in our manufacturing operations is focused on three areas: minimising waste created in the first place by optimising process efficiency in new product development, careful monitoring of product lines, and avoiding waste through redistribution. We aim to redistribute to people where possible through redistribution networks such as FareShare and Company Shop, through our own staff shops and local organisations, or to animal feed.

UK food waste is one of our non-financial KPIs, and in 2020 we entered into a refinancing agreement that included an ESG margin adjustment based on our performance on both UK food waste and UK carbon emissions intensity.

2021 performance

Despite positive progress made in 2020, the return to more normal production levels, as the impact of the pandemic eased, resulted in a 0.67% increase in UK food waste to 9.15% in 2021. Following review of our performance through the first half of the year, the increase in food waste was escalated as a priority at ESG Executive Committee level and a number of operational and governance improvements were implemented to address this upward trend, which included identifying priority sites for targeted action. Updated procedures and guidelines will be rolled out from January 2022 in order to strengthen our processes and support site-by-site food waste reduction programmes.

In China, we launched a new direct-to-consumer channel for selling surplus bakery products on a popular e-commerce platform at a reduced cost, which has helped significantly reduce potential waste.

See data on **page 49**

RESOURCE EFFICIENCY AND EMISSIONS

Resource efficiency in our operations refers to how we optimise the energy and utilities required in food manufacturing including chilling, heating, powering machinery and maintaining safety and hygiene standards. It is also our largest area of focus for addressing the direct climate impacts of our business.

KEY COMMITMENTS

- Achieve Net Zero carbon emissions in our Group operations by 2040.
- Work towards optimising operational water intensity per tonne of product, whilst maintaining product quality and integrity, reporting internally on a monthly basis through the environmental tracker (year-on-year).

In January 2021, we committed to becoming a Net Zero carbon emissions business across our Group operations – US, UK and China – by 2040. We have outlined the structure of our Net Zero roadmap as well as our exposure to climate risks and opportunities in our TCFD report.

See our TCFD section on **pages 54 to 61**

Bakkavor has active programmes to reduce energy consumption and associated carbon emissions. Energy performance of sites is closely monitored, with all eligible UK manufacturing sites operating under Climate Change Agreements. A number of projects have been implemented or are planned across the business to improve energy efficiency and reduce carbon. These have been compiled into a carbon tracker tool which is reviewed and updated on a regular basis and forms a key element of our carbon reduction plan.

Energy efficiency is a central component of our Net Zero roadmap, and further detail can be found in our TCFD report, including information for Streamlined Energy and Carbon Reporting ("SECR") on page 60.

2021 performance

Total energy consumption in the UK decreased by 9.0% to 521,885,147 kWh compared to 2020. This has been driven by continued progress in our ongoing capital investment plan to upgrade our refrigeration systems away from using fluorinated ("F") gases to lower Global Warming Potential ("GWP") and/or CO_2 systems. We also implemented several energy efficiency projects across our sites, including compressed air, hot water and steam systems, and we continued a £1 million project converting lighting to more efficient LEDs. This project will help to deliver a 55% reduction in energy when complete in 2022. Further upgrades are part of our ongoing pipeline for 2022.

Since 2017, our UK electricity supply has been sourced through a renewable supply contract, and comprised 86% of our gross UK Scope 2 emissions in 2021.

Energy consumption of our US business comprises 8% of the Group's total. We have several ongoing site-specific programmes to challenge and reduce refrigeration demand, and assess gas efficiency. Our facilities in China contribute 7% of Group energy consumption in 2021. General energy efficiency upgrades are being considered as part of our ongoing maintenance, refurbishment and capital expenditure programmes.

For carbon emissions and energy performance and our Net Zero commitment refer to the TCFD section.

See carbon emissions data on **pages 60 to 61**

Water

As a food manufacturer, a consistent and adequate supply of fresh water is critical to our business operations, for hygiene purposes, in food preparation and in cooking processes. All of our sites have fully functioning and safely managed water, sanitation, and hygiene ("WASH") services for all workers. This is vital for our safe operating food hygiene standards and is incorporated into our Group health, safety, and environment policies.

Six of our UK sites (those around the Thames basin), one of our US sites (Carson, California), and three of our China sites (Beijing, Xi'an, and the head office in Shanghai) are currently within basins considered to be at high risk according to the WRI Aqueduct tool's measure of water stress. To date, we have not experienced detrimental impacts due to water availability at these or other sites, however, we have set ourselves a commitment to optimise operational water intensity per tonne of product (whilst maintaining product quality and integrity) by monitoring usage and exploring machinery upgrades that increase efficiency.

2021 performance

We improved our UK Environmental Management System, which included risk management standards, guidance and tools. This system covers a number of environmental indicators including water consumption and treatment. This has led to a significant improvement in understanding of compliance at site level and has resulted in a stepped change in our environmental audit scores through 2021. We have begun a review of our environmental training material around our key risks, supporting our learning and development team, and this will continue into 2022.

As we are in the process of upgrading our water tracking and measurement procedures, water consumption data is not yet available for 2021. We reported our consumption and management of water through CDP's water questionnaire, which can be found on **www.cdp.net**.

1 IPCC, 2019: Climate Change and Land: an IPCC special report on climate change, desertification, land degradation, sustainable land management, food security, and greenhouse gas fluxes in terrestrial ecosystems (P.R. Shukla, J. Skea, E. Calvo Buendia, V. Masson-Delmotte, H.-O. Pörtner, D. C. Roberts, P. Zhai, R. Slade, S. Connors, R. van Diemen, M. Ferrat, E. Haughey, S. Luz, S. Neogi, M. Pathak, J. Petzold, J. Portugal Pereira, P. Vyas, E. Huntley, K. Kissick, M. Belkacemi, J. Malley, (eds.)). In press.

TRUSTED PARTNER CONTINUED

IMPACT OF PACKAGING

To ensure our freshly prepared products maintain high standards of food safety and quality, packaging is critical. It also helps extend product shelf-life, which in turn reduces food waste. Historically, plastic packaging has been used in a variety of formats across our product ranges as it has the criteria to ensure product integrity and safety. However, plastics, in particular single-use formats, contribute to the global pollution problem and originate from non-renewable resources. Choosing the right packaging materials and formats alongside our customers is therefore important to balance shelf-life, safety and quality along with the circularity and sustainability of food packaging materials.

We address the sustainability of our packaging through our internal Packaging Forum working group, comprised of packaging technologists and sustainability, development and commercial team members. The group met throughout 2021 to share updates from respective businesses and departments, discuss challenges and cross-pollinate ideas and innovations.

KEY COMMITMENTS

- Support progress towards achieving The UK Plastics Pact's 2025 industry goals of eliminating unnecessary plastic packaging; 100% reusable or recyclable plastic packaging and at least 30% average recycled content in plastic packaging.

2021 performance

In 2019, we signed up to The UK Plastics Pact and in 2021 we continued with our 'remove and replace' plastic strategy which supported strong progress against these goals. We have removed nearly 400 tonnes of plastic from the UK business. This has been achieved by using lighter grade where possible, eliminating some packaging components such as additional lids and by switching to alternative materials such as cardboard. Switching to cardboard, where appropriate, also helps us to maximise recyclability. 99.8% of our UK packaging is now recyclable and 81.2% is made from recycled or renewable materials such as cardboard.

As of 2021, 100% of our paper and card based packaging is sourced from certified sustainable sources such as FSC (Forest Stewardship Council) and PEFC (Programme for the Endorsement of Forest Certification) forests.

We also continue to increase the use of plastics with recycled content, with an average of 45.6% recycled content across all of our plastic packaging portfolio – well ahead of the 2025 UK Plastics Pact target. This is also helping us to mitigate the impact of the incoming Plastics Tax, which applies to plastic packaging with less than 30% recycled content.

See data on **page 49**

SUSTAINABLE PRODUCT DEVELOPMENT

As a business we want to help facilitate the shift to healthier, more sustainable lifestyles by producing a wide range of healthy, innovative and great-value products that suit vegan, vegetarian and flexitarian diets, including products that are part of our strategic customers' plant-based ranges.

KEY COMMITMENTS

- Work with customers to meet their nutrition targets on salt, sugar, saturated fat and overall calories through reformulation.
- Enable sustainable diets through our product portfolio by continuing to lead and drive plant-based fresh prepared product ranges.

We monitor the latest consumer trends and this insight is used to inform our new product development. In 2021, consumers' focus on the environment and desire for more sustainable food options has heightened, with the COP26 climate conference in November 2021 bringing this to the front of mind. We have a cross-functional team that is focused on product sustainability criteria, establishing how it can be measured and managed.

2021 performance

In 2021, of our UK product portfolio:

- 50% of our product ranges are vegetarian and almost one in five (19%) are plant-based.
- 83% of our products are already compliant with the Food Standard Agency's salt reduction targets for 2024.
- More than 60% of our products are healthier options as defined by the UK's Department of Health UK Nutrient Profiling Model.
- Over 400 of our products contain at least one of the recommended five portions of veg portion and we're working hard to increase the veg content in our product ranges.

In China, we have also seen increased demand for meat alternatives and sustainable diets. To support this, we have collaborated with well-known plant-based brands and launched several new products for our retail and foodservice customers. In the US, retailers are increasingly looking to provide products that promote healthier lifestyles, reduce food waste and offer alternatives to animal proteins. Our product developers have a particular focus on reducing food waste, for example, by using different edible parts of fruits and vegetables which have in the past been discarded and we have also developed a low-carbohydrate range of fresh meals for one of our strategic customers.

We have also continued to focus on improving the nutritional profile of our ranges, working with our customers to adapt recipes which meet nutrition targets in line with the UK Government's updated obesity strategy. We do this both by adapting existing recipes to lower levels of fat, sugar and salt, and also through developing new alternative products.

ENGAGEMENT AND WELLBEING IN OUR WORKPLACES AND COMMUNITIES

Engagement and Wellbeing in our Workplaces and Communities addresses four issues; colleague wellbeing, health and safety, responsible recruitment and employment, engagement, development and retention, and local causes and community engagement.

COLLEAGUE WELLBEING, HEALTH AND SAFETY

Health and Safety

We will always aim for a zero-harm workplace environment and our goal is for no accidents. Whilst in most manufacturing environments, accidents will occur, we still consistently outperform industry averages on workplace safety.

KEY COMMITMENTS

- Continue our commitment to health and safety, targeting zero serious accidents across the Group.
- Continue to maintain UK performance by out-performing industry average on numbers of major accidents and >7 days lost time accidents.

In 2021, we reviewed our health and safety ("H&S") strategy to drive a step change reduction in safety risks in the workplace. It focused on working collaboratively across the Group, increasing sharing of information and best practices, and defining a set of global principles for all businesses to adopt. We also further improved our UK H&S manual including risk-management standards, guidance, and tools, focused on our most significant risks. The documents are intended to offer further clarity around our standards in simple 'operational language' and further standardise our compliance tools.

2021 performance

In the UK, the number of major accidents increased by 13% on 2020. Our major accident rate (57 per 100k employees) is an increase of 16%, but remains significantly below the HSE Food Industry average of 211 major accidents per 100k employees.

>7 day accidents in the UK decreased by 2% (absolute number) on 2020. The >7 day accident rate per 100k employees increased marginally by 1% to 334, however this is less than half of the HSE Food Industry average of 762. Total accidents in 2021 decreased by 5% and there were no workplace fatalities.

As in 2020, both major accidents and >7 day accidents in 2021 were predominantly due to slips and trips. During the year we conducted a review and pilot project to identify the wellington boots for operative workers that offer the most slip resistance, comfort, chemical resistance and foot protection, while meeting the hygiene requirements for cleanability. After listening to the feedback and recommendations of our site colleagues, a new level of approved products was introduced. In 2022, we remain focused on reducing slip incidents by continuing to analyse cleaning methods to help further reduce slip risk, and continue to adopt good manufacturing practices.

In China, >7 day lost-time accident rate increased by 71% to 726 per 100k employees. However, there were zero major accidents and zero workplace fatalities.

In the US, our rate of recordable accidents (defined by Occupational Safety and Health Administration, "OSHA") per 100k employees reduced by 55% compared to 2020, and there were no reportable majors (defined by OSHA) or fatalities.

See data on **page 50**

TRUSTED PARTNER
CONTINUED

Wellbeing

A healthy workplace is not just about the absence of physical risk of harm. We aim to provide an environment where colleagues feel valued, included and inspired to perform at their best due to their broader physical, emotional and financial wellbeing.

KEY COMMITMENTS

- Be recognised by our colleagues as supporting them to achieve positive wellbeing.

In 2021, we built on the wellbeing assessment conducted in 2020 by establishing a cross-functional Wellbeing Steering Committee. Our CPO sits on the committee, which is supported by our CFO as Group Board Sponsor, and includes representation from HR, Operations, H&S, Occupational Health, our GEF and Corporate Affairs. In 2021, this forum drafted a Wellbeing Strategy for launch in 2022 that outlines our multi-faceted approach to wellbeing, and details how we will support colleagues' physical, emotional and financial wellbeing. This committee has also identified several priorities including site wellbeing champions, improving our wellbeing toolkit, developing a suite of training materials, and a focus on mental health and musculoskeletal conditions.

We have continued to encourage colleagues to utilise the resources provided by our wellbeing toolkit and launched several campaigns during the year. This includes support mechanisms such as our Employee Assistance Programme, GroceryAid's helpline, and Salary Finance – a financial wellbeing hub provided as a benefit for all colleagues, as well as our 'Financial Wellbeing', 'Know Your Numbers' blood pressure monitoring and 'Back Care Awareness Week' campaigns.

Colleague wellbeing during the COVID-19 pandemic

The COVID-19 pandemic continued to have an impact on our US, China and UK businesses through 2021, and processes established in 2020 continued to ensure we maintained a safe working environment and were compliant with the latest Government guidance. This included additional, enhanced safety measures implemented on top of our established industry-leading food hygiene and safety controls. For example, we implemented more frequent cleaning mechanisms, temperature scanners, visors, masks and screens, additional handwashing protocols and social distancing measures in common areas. We continued to encourage colleagues to work from home, where their role made this possible, gradually implementing 'Return to office working' guidelines following health and safety risk assessments for each local office and site.

COVID-19 is one of our principal risks; for detail of our risk assessment, mitigations and developments refer to pages 72 to 86.

RESPONSIBLE RECRUITMENT AND EMPLOYMENT

Responsible recruitment and employment ensures we have policies, practices and values which foster a culture that guarantees fair labour rights and ethical employment in our own operations.

At Bakkavor, our values and culture will never be compatible with any form of modern slavery. We have a Group Human Rights and Ethical Programme in place, driven by our ethical trade team, which is comprised of a Head of Human Resources, two Senior HR Business Partners and an ethical trade specialist. The programme is overseen by our Management Board and progress is updated at ESG Executive Committee meetings. We are committed to taking an active, leadership role in driving best practice in this area and raising awareness across our business so that our colleagues are well-equipped to understand and recognise risks and report any concerns.

KEY COMMITMENTS

- Drive awareness and action on the issue of modern slavery, rolling out campaigns and training so that our colleagues know the indicators and how to report them (ongoing).

Through 2021, we rolled out new recommendations following the implementation of the Sedex Self-Assessment Questionnaire ("SAQ") across all UK sites, following its implementation at our Hong Kong site in 2020. The SAQ allows our sites, and those of our suppliers, to understand good labour practices, assess current risks, understand hotspots and identify areas to drive change. These actions included:

- Sedex SAQ score reviews to ensure that sites are classified as low risk;
- Implementing a new Internal Ethical Assessment process to help prepare sites for their third-party ethical audits;
- Moving from internal to external audits of our labour providers, to identify risks and improve the management of agency labour; and
- Development of the new Forced Labour Response Plan Policy and Remediation, which will enable Bakkavor to significantly improve our scores against the Stronger Together and UN Guiding Principles ethical standards.

We are a business partner with Stronger Together, a multi-stakeholder organisation which aims to reduce modern slavery risks and worker exploitation. In 2021, they conducted an Organisational Performance Assessment of our business and our progress in addressing modern slavery risks both within our own business and our supply chain. Our overall Organisation Progress Score in addressing modern slavery risk of 77% is classed as 'impressive' and our management of internal systems and processes was found to be 'exceptional, with many robust features and internal monitoring of progress'. This reflects the combination of a score of 86% in managing our own business and 74% for managing our supply chains.

We are proud of the work we have done, and continue to do in this area, and we will strive to make sure Bakkavor continues to meet the highest ethical standards for our customers, our suppliers and, most importantly, our colleagues. Looking forward to 2022, we are prioritising expansion of our processes, policies and sharing best practice with our international businesses.

More details on our approach to combatting modern slavery can be found in our Modern Slavery Statement on our website (see www.bakkavor.com/en/esg/policies-and-documents).

ENGAGEMENT, DEVELOPMENT AND RETENTION

Providing a workplace where our colleagues feel engaged, empowered, and able to be themselves is a core business priority. This supports our objectives of attracting and retaining the best talent and contributing to the local economic development of our communities by being an employer of choice. To do this, we have three main action areas: colleague engagement through open and constructive two-way communication; fostering an equal, inclusive and diverse workplace; and developing our talent through training and progression opportunities and fostering early careers through our apprenticeship and graduate schemes.

KEY COMMITMENTS

- Promote an inclusive working environment, where differences are valued, and individuals feel they can be themselves, without judgement.
- Reduce our employee turnover and maintain below industry average.
- Implement an integrated talent-management and development programme to provide our colleagues with continuous learning opportunities.

Engagement

Open and constructive communication allows us to hear views from all levels of the business, as well as keep our c.19,000 colleagues informed and updated. We perform a Group-wide Employee Engagement Survey every 18 months and our latest survey, completed in May 2021, had a response rate of 83%. The 2021 survey provided valuable insights that were analysed at local, site, business and Group level and have fed into localised action plans and informed our colleague priorities.

Outside of the engagement survey, our UK GEF and Site Employee Forums ("SEF") create an open and regular channel of communication between colleagues and management. SEF representatives are elected by peers and play a vital role in sharing best practices across sites, supporting local causes and charities, providing support and seeking advice. In 2021, Jill Caseberry was appointed the Company's designated workforce engagement Non-executive Director, providing colleagues with a direct channel of communication and an independent champion at Group Board level (see Governance section, page 103).

See data on **page 51**

Inclusion and Diversity ("I&D")

Our success relies on the skills, experience and commitment of the diverse range of colleagues who work for us. We want to create an equal and inclusive workplace where colleagues feel valued, included and inspired to perform at their best. Following the launch of our I&D Policy in 2020, we convened the I&D Forum in January 2021. This is chaired by the Group General Counsel and Company Secretary and includes representatives from every level of the organisation. Gender diversity and increasing support for female leaders in their career aspirations is the key area of focus, and the forum has developed a three-year plan to drive and accelerate gender equity within the organisation.

The I&D Forum also co-ordinated action around several key events through the year, with site and business-level activities, such as cultural events, educational webinars, shared learning sessions and communication of relevant policies.

As we seek to drive greater action on I&D across our industry, Bakkavor was a headline sponsor of the Diversity and Inclusion in Grocery Programme. This initiative run by the NGO GroceryAid brings together FMCG businesses to catalyse change and challenge the sector to progress diversity and inclusion. The programme encompasses a one-day in-person event as well as online workshops and a mentoring scheme which we participate in.

UK gender pay report summary

Bakkavor UK reports on our gender pay gap in accordance with our legal requirements as a company with more than 250 colleagues.

Whilst we have taken several proactive steps to increase the representation of women at senior levels and support career progression for women in the business, our median gender pay gap for 2021 increased to 5.1% from 2.1% in 2020. The factors driving this increase are nuanced and influenced by the higher turnover seen in the industry and more men in middle to senior roles.

Our mean gender pay gap of 8.6% is, however, still well below the UK average of 15.4% (all colleagues, ONS 2021). Women at our Senior Executive level increased from less than a third (32%) in 2020 to make up 42% in 2021. We remain committed to promoting gender balance at all levels of our workforce.

In 2021, we have taken a number of actions to drive an improvement in gender equality, through our I&D Forum's activities, as well as by embedding our talent strategy and principles to enable all colleagues to reach their full potential. This has included creating objectives and targets to attract, recruit, retain and progress more women, and our Female Mentoring Programme.

Refer to page 52 for the gender pay data, and further analysis and information around our activities in this area can be found in our gender pay report for 2021 (see www.bakkavor.com/en/esg/policies-and-documents).

TRUSTED PARTNER CONTINUED

Talent development

We are committed to providing learning and development opportunities that are relevant, accessible and timely to all, supporting differing career needs and aspirations.

In 2021, we invested in talent development with the launch of new training programmes including a Front-Line Leaders Development Programme for all UK factory supervisors and a Leadership Development Programme for key leaders across our Group. Through an online e-learning platform, we rolled out refreshed modules on cyber security and anti-bribery and corruption for our UK colleagues. This training is now an annual requirement.

Our Early Careers Scheme continues to successfully develop graduates and apprentices into the business in specialist roles across several functions. Graduates complete placements in a number of different business units and are guided through a tailored leadership programme with the aim of nurturing talent and creating long-lasting and rewarding careers.

Our apprentices, of which there are over 200, equip our business for the future by upskilling critical job roles with the latest standards and qualifications. As part of the recognised industry-leading 'Trailblazer Group', we are one of a number of companies designing apprenticeship standards, and to date have been involved in writing 20 different standards. TheJobCrowd's annual survey included Bakkavor as the overall winner for Apprentices in the Consumer Goods & FMCG industry sector, and our Graduate programme also took second place in this category.

LOCAL CAUSES AND COMMUNITY ENGAGEMENT

As a major employer, we pride ourselves on the strong ties we create with the communities in which we work. By rallying our colleagues around key causes, such as supporting local charities, schools and projects, we believe we can have a positive impact on our local areas.

KEY COMMITMENTS

- Fundraise and support our key Group charities through Group donations and colleague engagement fundraising activities (ongoing).

Our colleagues made a real difference in 2021 with various fundraising initiatives for our chosen local charity partners. Our UK sites made significant and regular donations of food and other items to support local charities, events, disadvantaged groups, COVID-19 vaccination centres, and schools. Our Hong Kong business has redistributed around 150kg of surplus product to three local food charities that deliver surplus food to homeless and vulnerable people. In the US, our Carson site in California hosted a blood drive for the Los Angeles Children's Hospital and our Bread site in Charlotte, North Carolina donated 1,000 loaves of bread to health workers administering COVID-19 vaccines.

We also have two Group corporate charity partners – Action Against Hunger and FareShare. Our graduates and apprentices got involved in Tough Mudder races, food collections, car washes, walking challenges and a live cook-along to raise funds for these causes.

In 2021, we made donations of £15,000 to FareShare and £27,000 to Action Against Hunger. We also donated £10,000 to help the award-winning social enterprise Community Shop open its eighth 'social supermarket' in Knottingley, West Yorkshire – where all food products are surplus – and host 'Community Hubs' offering training opportunities to help people back into education or work.

In December 2021, the UK business announced its new charity programme, including a three-year partnership to support GroceryAid and Natasha Allergy Research Foundation. In parallel, our US business announced it will support four foodbanks local to sites and a matched giving scheme to raise further funds for each foodbank.

ESG PERFORMANCE DATA

SUSTAINABILITY AND INNOVATION IN OUR OPERATIONS

Food waste (UK)	**2021**	**2020**	**2019**	**2018**
Food waste as percentage of food produced	**9.15%**	8.48%	8.90%	9.10%
Food waste (tonnes)	**44,382**	41,625	43,913	48,757
Food waste avoided				
Recycled as animal feed (tonnes)	**21,265**	24,752	27,520	30,499
Redistributed to people through FareShare and local charities (meal equivalents[1])	**412,643**	189,095	165,550	86,309
Redistributed to people through other secondary markets such as redistributors (meal equivalents)	**955,405**	1,538,643	989,190	1,350,000
Redistributed in Bakkavor staff shops (meal equivalents)	**1,419,667**	1,332,143	1,771,800	1,327,738

All our UK sites send zero waste to landfill.

Packaging use (UK)	**2021**	**2020**
Total primary packaging in products sold (tonnes), of which:	**62,825**	61,667
Total made from recycled and/or renewable materials	**51,033**	49,054
% from recycled and/or renewable materials	**81.2%**	79.5%
Total packaging that is recyclable, reusable, and/or compostable	**62,726**	61,572
% that is recyclable, reusable, and/or compostable	**99.8%**	99.8%
Packaging use by material		
Plastic (tonnes)	**20,328**	21,032
PE / HDPE / LDPE / LLDPE	**319**	314
PET, of which:	**14,271**	14,376
rPET (recycled)	**9269**	9136
Average recycled content	**64.9%**	63.6%
PP	**5,639**	6,247
Laminate films[2]	**99**	95
Average recycled content, all plastics	**45.6%**	43.4%
Bakkavor does not source PVC or PS (polystyrene) plastic		
Paper-based packaging (tonnes)	**41,764**	39,918
Other primary packaging materials, e.g. aluminium	**733**	717

1 Meal equivalent based on a 420g portion.

2 As of January 2022, these are now deemed recyclable according to the On-Pack Recycling Label ("OPRL") scheme as collection facilities for recycling of soft plastics are more widely available in UK supermarkets.

TRUSTED PARTNER
CONTINUED

Water use

We are in the process of upgrading our water tracking and measurement procedures. Water consumption data is not yet available for 2021. We report our consumption and management of water through CDP's water questionnaire available at www.cdp.net.

See also: 2020 CDP Forests questionnaire for Timber (paper-based products) available at www.cdp.net.

Carbon emissions and energy use data can be found in the TCFD section on pages 54 to 61.

Sustainable and healthy products (UK)

	% UK product portfolio
Plant-based products	**19%**
Vegetarian products	**50%**
Meeting 'healthier' criteria (lower in fat, sugar, salt than alternatives)[2]	**62%**
Meeting the Food Standards Agency's 2024 target for salt	**83%**

ENGAGEMENT AND WELLBEING IN OUR WORKPLACES AND COMMUNITIES

Group health and safety data

UK	2021	Change vs 2020	2020	2019	2018
Major[3] accidents per 100k employees	**57**	+16%	49	41	94
>7 days lost-time accidents per 100k employees	**334**	+1%	330	254	400
Total accidents per 100k employees	**6,260**	-5%	6,579	7,726	10,068

CHINA	2021	Change vs 2020	2020
Major accidents per 100k employees	**0**	-100%	47
>7 days lost-time accidents per 100k employees	**726**	+71%	424
Total reportable accidents per 100k employees	**726**	+19%	612

US	2021	Change vs 2020	2020
OSHA Recordable incidents[4] per 100k employees	**3,368**	-64%	9,333
OSHA reportable injuries	**0**	-100%	1

Our international businesses additionally report health and safety data as per local legislative requirements to the relevant authorities.

1 We do not currently have consumption or use data for our US business but are implementing processes to measure this in 2022. Intensity ratio is based on UK and China reported revenue of £1,691.5 million (2020: £1,647.0 million).

2 As per the Department of Health's UK Nutrient Profiling Model.

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

4 According to definition of the US Occupational Safety and Health Administration ("OSHA"). Employee numbers include agency labour.

Colleague data

The Group employed 18,972 colleagues in total. Almost all colleagues (>99%) are considered permanent.

By location	2021 Number	% of total	2020	2019	2018	2017
United Kingdom	**15,863**	84%	16,356	16,942	17,004	17,348
US	**875**	5%	808	874	635	595
China	**2,205**	12%	2,125	2,266	2,181	1,628
Continental Europe (Spain, Italy)	**29**	<0%	29	23	22	22
Total	**18,972**		**19,318**	**20,105**	**19,842**	**19,593**

By function	2021 Number	% of total	2020	2019	2018	2017
Production	**15,578**	82%	15,938	16,759	16,706	16,653
Management and administration	**2,521**	13%	2,488	2,424	2,183	1,992
Sales and distribution	**873**	5%	892	922	953	948
Total	**18,972**		**19,318**	**20,105**	**19,842**	**19,593**

By gender

Group	2021	%	2020	2019	2018	2017
Female	**8,450**	45%	8,654	8,864	8,698	8,389
Male	**10,522**	55%	10,664	11,241	11,144	11,204
Total	**18,972**		**19,318**	**20,105**	**19,842**	**19,593**

UK[5]	2021	%	2020	2019	2018	2017
Female	**6,626**	41.7%	6,906	7,023	7,066	7,125
Male	**9,266**	58.3%	9,479	9,942	9,960	10,245
Total	**15,892**		**16,385**	**16,965**	**17,026**	**17,370**

China[6]	2021	%	2020	2019	2018	2017
Female	**1,405**	63.7%	1,366	1,427	1,352	1,002
Male	**800**	36.3%	759	839	829	626
Total	**2,205**		**2,125**	**2,266**	**2,181**	**1,628**

US	2021	%	2020	2019	2018	2017
Female	**419**	47.9%	382	414	280	262
Male	**456**	52.1%	426	460	355	333
Total	**875**		**808**	**874**	**635**	**595**

5 UK data includes employees based in Bakkavor Inbound Logistics and procurement offices in Spain and Italy.
6 China includes mainland China and Hong Kong.

TRUSTED PARTNER
CONTINUED

Gender pay reporting (UK)

		2021		2020		2019
Median gender pay gap		**5.1%**		2.1%		7.3%
Mean gender pay gap		**8.6%**		8.2%		10.7%
	M	**F**	**M**	**F**	**M**	**F**
1st quartile (lower paid)	**51.1%**	**48.9%**	58.8%	41.2%	49.5%	50.5%
2nd quartile	**58.5%**	**41.5%**	59.6%	40.4%	59.3%	40.7%
3rd quartile	**63.8%**	**36.2%**	58.1%	41.9%	62.5%	37.5%
4th quartile (highest paid)	**65.0%**	**35.0%**	67.6%	32.4%	67.5%	32.5%
Median gender bonus gap		**15.2%**		14.5%		14.9%
Mean gender bonus gap		**17.0%**		28.1%		13.6%
	M	**F**	**M**	**F**	**M**	**F**
Proportion of males and females:						
– Receiving a bonus	**9.9%**	**7.8%**	9.3%	7.8%	2.4%	2.0%
– In lower pay quartile	**51.1%**	**48.9%**	58.8%	41.2%	49.5%	50.5%
– In lower middle pay quartile	**58.5%**	**41.5%**	59.6%	40.4%	59.3%	40.7%
– In upper middle pay quartile	**63.8%**	**36.2%**	58.1%	41.9%	62.5%	37.5%
– In upper pay quartile	**65.0%**	**35.0%**	67.7%	32.4%	67.5%	32.5%

Senior leadership by gender

	Group Board		Senior Management[1]		Management Board		Senior Executives[2]	
	Number	**%**	**Number**	**%**	**Number**	**%**	**Number**	**%**
Female	3	27%	4	29%	1	20%	15	42%
Male	8	73%	10	71%	4	80%	21	58%
Total	**11**		**14**		**5**		**36**	

Senior leadership by ethnicity[3]

	Group Board		Senior Management		Management Board		Senior Executives	
	Number	**%**	**Number**	**%**	**Number**	**%**	**Number**	**%**
Of white European heritage	10	91%	13	93%	5	100%	31	86%
Director or Executive of colour	1	9%	1	7%	0		5	14%
Total	**11**		**14**		**5**		**36**	

UK employee turnover (%)

	2021	2020	2019	2018	2017
Turnover (excluding fixed-term contracts and redundancies)	**27.8**	17.9	20.9	22.1	22.7

1 Refers to the definition within the Companies Act 2006 s414C (8)-(10). Data is for financial year.
2 Refers to the Management Board's direct reports as per the FRC's 2018 UK Corporate Governance Code Provision 23. Data is for financial year.
3 Reflects the Parker Review methodology and definition of 'Director of colour'.

NON-FINANCIAL INFORMATION STATEMENT

The following detail sets out where stakeholders can find further non-financial information on each of the key areas of disclosure as required under the UK Companies Act 2006 sections 414CA and 414CB.

Reporting requirement	Relevant policies	Location of further information in this report	Page reference
Environmental matters	Deforestation statement* Supplier Code of Conduct*	Sustainability and Innovation Environmentally Sustainable Sourcing	42 to 44 41
Employees	Code of Conduct** Inclusion and Diversity Policy*	Engagement and Wellbeing	45 to 48
Human rights	Modern Slavery Statement* Responsible Operations Policy** Group Ethical Trading and Human Rights Policy**	Responsible Recruitment and Employment Responsible Recruitment and Employment Supply Chain Human Rights	46 40
Social matters	Code of Conduct** Modern Slavery Statement*	Engagement and Wellbeing	45 to 48
Anti-bribery and corruption	Anti-Bribery and Business Ethics Policy** Anti-Bribery and Business Ethics Statement* Whistleblowing Policy** Charity and Political Donations Policy**	Anti-Bribery and Business Ethics Policy Whistleblowing Policy Charity and Political Donations Policy	53
Data protection	Data Protection Policy** Data Retention Policy** Privacy Notice** Cookie Policy*	Data Protection Policy	53
Business model		How we create value	10 to 11
Non-financial KPIs		Key performance indicators	28 to 29

HUMAN RIGHTS, ETHICAL TRADING AND RESPONSIBLE OPERATIONS POLICIES

Bakkavor is committed to doing business in a fair and ethical way. We actively work at meeting our moral, legal, ethical and humanitarian responsibilities. Our Ethical Trading and Human Rights Policy and our Responsible Operations Policy provide the principles and framework that Bakkavor has adopted to manage this commitment both within our own operations and in our supply chain. The policies apply to all Bakkavor's own operations and the permanent, temporary and agency colleagues who are employed within them.

See Supply Chain Human Rights on **page 40**

See Responsible Recruitment and Employment on **page 46**

WHISTLEBLOWING POLICY

This Whistleblowing Policy applies to the whole Group and provides a mechanism through which individuals can raise concerns on illegal, unsafe or inappropriate activities including discrimination or harassment in the workplace. This policy represents Bakkavor's internal procedure and the use of this enables Bakkavor to effectively address any wrongdoing within the business. It was updated in 2021 to reflect a change of provider, offering information on how to raise an issue through an independently monitored and confidential reporting hotline. The Bakkavor service, 'Speak Up', is available Group-wide by Freephone or online 24 hours per day / 365 days per year and in 15 languages. In 2021, we further promoted this channel as a means of raising concerns on how the COVID-19 policies were being implemented. Cases logged were investigated thoroughly through local HR contacts, General Managers and/or Business Directors, as well as the CPO, Technical Director, General Counsel or the CFO when relevant. Whistleblowing is also regularly monitored by the Board.

CHARITY AND POLITICAL DONATIONS POLICY

Bakkavor believes in giving back to those communities in which we operate. Our Charity and Political Donations Policy sets out the ways charitable giving may be channelled: through monetary and product donations, supporting our colleagues in their fundraising efforts and advocating skills and volunteering events, where appropriate. We never use charitable donations as a means to gain improper influence and all monies given to charity in Bakkavor's name are subject to due process. Bakkavor does not give financial donations or support to political individuals, representatives, parties or causes in any country in which we operate.

See Local Causes and Community Engagement on **page 48**

DATA PROTECTION POLICY

Bakkavor recognises that the correct and lawful treatment of personal data provides for successful business operations. Protecting the confidentiality and integrity of personal data is a critical responsibility that Bakkavor always takes seriously. All staff and business areas are responsible for ensuring compliance with this policy and are required to implement appropriate practices, processes, controls and training to ensure compliance. In order to re-state the importance of data protection and supplement this policy, Bakkavor has utilised its e-learning platform to roll-out training on data protection across the organisation in 2021. As part of its remit, the Audit and Risk Committee this year considered the adequacy of these arrangements and concluded that the policy was adequate. See pages 113 to 119.

ANTI-BRIBERY AND BUSINESS ETHICS POLICY

This policy, which also includes a Gifts and Hospitality Policy embedded within it, sets out the highest standards of business and ethical conduct expected by those who work for and on behalf of Bakkavor in all its business dealings whether with customers, suppliers, competitors or other business partners in all the countries in which Bakkavor does business. Bakkavor takes a zero-tolerance approach to bribery and corruption and is committed to acting professionally, fairly and with integrity in all its business dealings and relationships wherever Bakkavor operates and implementing and enforcing effective systems to counter bribery and corruption.

Bakkavor requires all employees and third parties to be familiar with the basic principles of anti-bribery law in order to avoid any actions or omissions which might infringe those laws. In 2021, Bakkavor rolled out refreshed training in anti-bribery for all UK colleagues.

Our procurement team assesses our supply chain partners for corruption and anti-bribery risk through compliance with our Supplier Code of Conduct (see pages 40 to 41). Implementing these policies, with the support of Bakkavor's e-learning platform, has enabled the business to re-state the importance of vigilance in identifying any bribery and corruption issues within the business and across the supply chain, together with greater awareness of reporting procedures. As part of its remit, the Audit and Risk Committee this year considered the adequacy of these arrangements and concluded that the policy was adequate. See pages 113 to 119.

* Available on www.bakkavor.com and to all colleagues through the Bakkavor intranet.
** Available to all colleagues through the Bakkavor intranet. Not published externally.

Climate Change and Bakkavor: Report against the recommendations of the Task Force on Climate-related Financial Disclosures ("TCFD")

In 2021, we formalised our commitment to reaching Net Zero across our UK, US and China operations by 2040, supporting the outcomes of the Paris Agreement and the objective to limit global warming to well below 2°C. We continue to develop and refine our roadmap of actions and targets towards 2040 in support of this.

See our Trusted Partner section on **pages 34 to 53**

Climate change is the single biggest sustainability challenge facing the world, and it is also a challenge for businesses – including ours. We recognise that our Group does not operate in isolation, that we have impacts on the environment and a part to play in reversing the climate emergency and supporting the shift towards a low-carbon economy.

Given the importance of the climate agenda, Bakkavor has taken the decision to voluntarily report against the recommendations of the TCFD in the current period. The below section sets out the progress that Bakkavor has made in 2021 and outlines further actions Bakkavor will take in 2022 to evolve our understanding of climate change and its impact on Bakkavor. Bakkavor has not reported against the Listing Rule (Listing Rule LR 9.8.6R) as this is not effective for the Group until the period ended 31 December 2022.

1. GOVERNANCE

The governance structure for climate-related issues in Bakkavor is set out below.

GROUP BOARD

Accountable for ensuring that climate-related issues are considered insofar as they impact the long-term strategy of the Group. Provides oversight of progress and implementation of Net Zero commitment. Reviews Group policies and commitments, including the Net Zero target and KPIs, progress and approach. The Group Board met eight times in 2021 and climate and ESG featured on the agenda on a quarterly basis.

Sponsor: Agust Gudmundsson, CEO

NOMINATION AND ESG COMMITTEE

Dedicated Board-committee for ESG matters including climate change and Net Zero commitment. Debates climate issues and provides guidance to the ESG Executive Committee as well as providing recommendations to the Group Board. Met twice in 2021.

Chair: Simon Burke, Non-executive Chairman
Designated Non-executive Director for ESG matters: Umran Beba

AUDIT AND RISK COMMITTEE

Reviewing principal risk, 'Climate change and sustainability' and reporting under TCFD regulations. Ensures climate-related risks are considered in the Group's viability assessment and impairment reviews and that financial reporting disclosures of these risks are fair and balanced. Considers broader impact across assets, liabilities and future profitability. Five meetings in 2021, of which one agenda featured climate and ESG.

Chair: Jane Lodge, Independent Non-executive Director

MANAGEMENT BOARD

Oversight of climate-related issues and performance against emissions reduction targets. Receives updates from the ESG Executive Committee on performance and climate-related risks. Directs strategic implementation of and capital allocation for energy efficiency and low-carbon projects. On a quarterly basis the Management Board agenda included climate and ESG matters.

Sponsor: Donna-Maria Lee, CPO

ESG EXECUTIVE COMMITTEE

Reviewing and acting on information and performance on climate and Net Zero-related matters affecting the business. Provides overall direction of the Group's Trusted Partner strategy. Working to identify financial resources required to meet Net Zero commitment.

Comprised of Director and other senior-level experts from Corporate Affairs, Procurement, Technical, Operations, Legal, Risk, Finance, Commercial and Regional Business Divisions. Met five times in 2021.

Chair: Sally Barrett-Jolley, Head of Corporate Affairs

The ESG Executive Committee has five workstreams that are involved in activities that support delivery of our Net Zero commitment. These are a dedicated workstream 'Net Zero Carbon Emissions'; 'Finance and ESG Reporting', which is tasked with ensuring regular and accurate carbon footprint reporting; 'Operational ESG Integration & Cascading', which cascades our commitment across our business; 'ESG Board Engagement', which supports Group Board training on climate issues; and 'Sustainability Risk Management and Reporting', which leads our approach to understanding climate risk.

Outcomes from the ESG Executive Committee meetings are reported to the Group Board on a quarterly basis, including in-year carbon emission forecasts and a review of the Company's climate risk assessment (see below). The Group Board uses specialist advisers on climate and related topics from time to time. As interim carbon reduction targets on our Net Zero roadmap are set, Bakkavor will review the potential linking of performance to incentives and remuneration for future years.

KEY ACTIVITIES IN 2021

- The ESG Executive Committee was formalised in early 2021 and has ownership of all ESG workstreams. The Committee met five times in 2021 to share updates and progress against workstream objectives.
- During the year the Group Board members received dedicated ESG training led by the Group's external advisers which covered climate change, biodiversity, human rights, plastics and waste. Dedicated ESG training and know-how sessions will be an annual feature on the Group Board agenda to ensure Directors continue to develop their knowledge and expertise in this area. The Group Board Knowledge and Skills matrix has been expanded to incorporate a wider range of ESG topics such as climate change and responsible sourcing and the matrix is used as a tool to identify key areas of diversity, skill, expertise or experience that would add to the effectiveness and reach of the Group Board when considering succession planning or evaluating Group Board effectiveness.
- The remit of the Nomination Committee expanded to include ESG matters including climate change and our Net Zero commitment and it was renamed the Nomination and ESG Committee.

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES CONTINUED

2. RISK MANAGEMENT

ASSESSING AND MANAGING OUR EXPOSURE TO CLIMATE RISKS

To assess the business's exposure to climate-related risks and identify potential opportunities, Bakkavor engaged specialists, Willis Towers Watson, to conduct a scenario-driven climate risk assessment. The approach entailed building scenarios against which Bakkavor's strategy and resilience could be stress-tested, following guidance in the TCFD Guidance on Scenario Analysis for Non-Financial Companies, then running catastrophe and climate modelling for physical risks, identifying transition risks and evaluating them through subject-matter expert interviews. Finally, we quantified risks where possible using Bakkavor's Enterprise Risk Management ("ERM") rating criteria and other metrics such as carbon price forecasts where relevant. The outcomes were reviewed by both the Group Board and Management Board and are presented below.

Transition risks

The transition risk assessment used scenarios aligned with projections to keep global warming 'well below' 2°c by 2030 in line with the ambitions of the Paris Agreement and considered impacts on different geographies and sectors. We have used a single, medium-term time horizon because the majority of transition risks are associated with aggressive mitigation action in the next 10 years. This assumes proactive and sustained action to reduce emissions over the next 30 years to build a low-carbon economy and the implications this has on environmental, social, economic, political, and technological dimensions. For example, assuming broader technological investment away from fossil fuels, towards increased energy efficiency and renewables. Sources informing assumptions included projections used in Shared Socio-Economic Pathways ("SSP"), the IEA (Sustainable Development), IPCC (RCP 2.6) and NGFS Below 2°c Orderly Scenario.

Overall, based on the risk analysis performed, our transition risk exposure is deemed to be low. This is due to existing mitigations, such as risk sharing mechanisms for raw materials price fluctuations and medium-term energy efficiency, and planned future technology upgrades. However, one transition risk emerged as 'moderate', and therefore, financially material. This is GHG emissions pricing, which impacts Bakkavor through increased operating costs due to forecasted carbon pricing. We have estimated that this risk could potentially increase the Group's cost by between £5-10 million p.a. by 2030 (the medium-term time horizon). Our mitigation against this risk is directly linked to successful delivery of our Net Zero commitment and its primary objective of reducing emissions as far as possible. In developing and refining the roadmap, we are incorporating considerations around GHG emission pricing, offset costs as well as capital expenditure planning around emissions reduction technology investments.

While a number of further transition risks – from increased raw material costs to changing consumer preferences – are deemed highly likely, we are well placed to mitigate the potential negative impacts on the business, and the potential financial impact from these risks is considered to be low.

The risk assessment also identified some potential opportunities arising from the transition to a low-carbon economy. Enhanced emissions-reporting obligations such as eco- or carbon labelling could support increased sustainability of our product portfolio, therefore supporting mitigation of other risks. Further, the transition to lower-emissions technology could provide an opportunity to deliver utility savings from increased resource efficiency, and regarding the changing costs of raw materials, as our business constantly evolves our product offering to reflect trends and seasonality, this naturally provides an opportunity to rebase costing on an ongoing basis. The table below outlines these risks.

Transition risk type	Transition risk	Description
Policy and legal	Enhanced emissions-reporting obligations	Challenge of adjusting to increasing carbon emissions-related reporting requirements. Additional operating costs of required resources to meet disclosure, including potential product footprint eco- or carbon labelling.
	Climate change litigation	Increased risk of climate-related litigation brought by investors, insurers, shareholders and public interest organisations.
	Building code requirements	Minor additional costs to upgrade buildings and sites to meet more stringent building codes such as EPC regulations in the UK, covered in ongoing building maintenance costs and budgeting.
	Emissions offset	Increased cost of carbon credits required to offset any residual emissions and deliver our Net Zero commitment by 2040.
Technology	Costs to transition to lower emissions technology	Additional costs to support delivery of Net Zero commitment through investments in lower emission technologies in our manufacturing sites.
Market	Increased cost of raw materials	Increased expenditure on raw materials due to price fluctuations and instability caused by transition climate risks in the supply chain.
	Changing consumer preferences	Lower revenues due to not shifting portfolio offering towards products that support consumer demand for lower climate-impact products.
	Cost of capital	More difficult to access capital as a result of increased incorporation of climate change considerations within credit ratings.
Reputation	Investment risk	Lower revenue and access to investment streams as a result of failing to meet stated ESG ambitions.
	Employee risk	Operational challenges due to failure to attract and retain talent as a result of failing to meet stated ESG ambitions.

Physical risks

The physical risk assessment looked at the acute and chronic impacts of climate change. For example, damage to sites caused by increased frequency and/or severity of extreme weather events (acute risks) and increased heat and/or drought stress (chronic risks). We assessed the potential risks over a medium (2030) and longer-term (2050 and beyond) time horizon using the Representative Concentration Pathways ("RCP") defined by the Intergovernmental Panel on Climate Change's ("IPCC") Fifth Assessment Report ("AR5"), specifically the 'best possible' scenario of 'well below 2°c' (at +1.5°c) RCP 2.6) and 'worst case' or 'hothouse world' scenario of RCP 8.5 (4°c). The acute risks are relevant under both scenarios. The chronic risks are relevant for the 4°c scenario.

Our exposure to physical risk varies across site and supply chain region due to the differing impacts of climate on geographic regions. As a business, the assessment highlighted that we are exposed to chronic and acute risks in both our operations and supply chain. These include for example:

Operational level:

- Chronic climate impacts on our operations that could lead to increased energy consumption and emissions due to higher cooling demand, increased water stress, reduced labour productivity and potential logistics disruption.
- Acute risks such as increased frequency of flood events around our sites that could cause disruption to production, site damages, increased maintenance, repair and insurance costs.

Supply chain level:

- Chronic climate hazard exposure such as heat stress, drought, and sea level rise in our supply chain that could lead to decline in yield for agricultural products and increased costs.
- Increased exposure of key suppliers and supply chain regions to acute climate risks such as floods and storm events that could cause supply bottlenecks, shortages, and sourcing disruption.

Acute risks are relevant now and the likelihood and impacts of these risks increase with the 'hothouse world' scenario of RCP 8.5 (4°c) as well as over time (2050 and beyond). The chronic risks emerge under the 'hothouse world' scenario from 2050. For both types, the risk is more pronounced in some regions than others.

To mitigate these risks, we are incorporating these findings into existing risk management procedures including supply chain assessments and insurance coverage and this will also be a factor in determining future capital allocation for the business. This information is also critical input for ongoing refinement of our Net Zero commitment and roadmap, which will include a number of energy efficiency projects as high-priority areas as ways to maximise utility efficiency and reduce absolute emissions, as well as support our adaptation measures to site-specific heat stress and drought.

In addition, our responsible sourcing strategy is designed to safeguard the resilience of our supply chain. This includes tools that allow us to understand supplier capabilities and exposures to environmental risks and work with them to reduce their risk, as required. For more information on our responsible sourcing strategy, and 2022 actions that support our risk mitigation see pages 40 to 41.

KEY ACTIVITIES IN 2021

- In light of the outcome of the climate-related risk assessment performed, we have updated our principal risk, 'Sustainability', to 'Climate change and sustainability', recognising the increasing importance of climate change risk to the Group (see page 85).
- In 2021, we further integrated ESG risks within our broader risk management processes and have mapped our Trusted Partner issue areas, which reflect our material ESG issues, to the appropriate principal risk (see Trusted Partner page 39). This requires principal risk owners to consider relevant ESG issues when conducting reviews and assessments of each risk.
- We further developed our responsible sourcing approach through additional targeted engagement with our direct suppliers, more on which can be read on pages 40 to 41.

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES CONTINUED

3. STRATEGY

See Our Group Strategy on **pages 22 to 25**

See Trusted Partner on **pages 34 to 53**

Our Group strategy considers how our business remains resilient and can continue to support our vision, to lead the way in bringing innovative, great-tasting, freshly prepared food to people around the world, in a sustainable way.

The approach to the fourth element of our strategy, trust, is captured in our Trusted Partner ESG strategy. This encompasses how we assess and implement our sustainability agenda and is based on our most material ESG issues, including climate change. The other elements of our Group strategy also support our response to climate change and our Net Zero commitment.

1

UK: DRIVE RETURNS BY LEVERAGING OUR #1 MARKET POSITION

We use our scale to maximise the potential for our carbon reduction objectives. For example, in 2021, we launched and completed a £13.3 million asset finance deal with HSBC to support the upgrade of our refrigeration systems across three sites – Sutton Bridge and Boston in Lincolnshire, and Bo'ness in West Lothian.

Our strategy considers how our business responds to the increasing demand for products that support more sustainable and climate-friendly diets. Our category leadership enables us to continue to be at the forefront of supporting this dietary shift.

2

INTERNATIONAL: ACCELERATE PROFITABLE GROWTH IN THE US AND CHINA

Responding to our strong growth internationally in a resource-efficient way is a clear priority. In expanding and opening new factories, we invest in state-of-the art equipment and technology, to ensure sites remain fit for the future, and support growth in an efficient and sustainable way.

In China, we are responding to the increased demand for meat alternatives and products supporting sustainable diets. We have collaborated with plant-based specialists to launch several new products for our foodservice and retail customers. In the US, we support our key customers with products that promote healthier lifestyles, which included the launch of a range of low-carbohydrate fresh meals for a strategic customer in 2021, reduce food waste and offer alternatives to animal proteins.

3

EXCELLENCE: DELIVER SUPERIOR PERFORMANCE THROUGH OPERATIONAL EXCELLENCE

The majority of our Scope 1 and 2 carbon emissions come from energy required for refrigeration, cooking processes and power for our factories. Therefore, optimising energy use in these areas, without compromising on food quality or safety, provides the most significant opportunities for reducing our carbon emissions.

The majority of the Group's energy consumption is in the UK (85%); as a result our energy efficiency actions and innovations are focused in this region. A central component of our Net Zero roadmap, our energy efficiency policy and strategy for managing energy consumption and carbon emissions continue to be refined in line with the UK Government Industrial Decarbonisation and Energy Efficiency Roadmaps to 2050. This is steered by the audits and subsequent recommendations of the Energy Savings Opportunities Scheme ("ESOS") audits. These findings, such as LED lighting, compressed air, hot water and steam systems and refrigeration control techniques, form part of our ongoing pipeline of site-upgrade projects and have a positive impact on our carbon emissions, as well as business costs and efficiency.

Site-level environmental performance is monitored through internal UK environmental trackers. These cover energy consumption and efficiency, water use, waste and food waste management, as well as progress towards Climate Change Agreement ("CCA") emission reduction targets.

4

TRUST: BE A TRUSTED PARTNER FOR OUR COLLEAGUES, CUSTOMERS, SUPPLIERS AND WIDER COMMUNITIES

Climate change, resource efficiency and emissions is a material issue within our Trusted Partner ESG strategy, and delivery against our Net Zero goal is managed through our ESG Executive Committee and ESG workstreams.

We also address climate change through other issues within our Trusted Partner strategy, including food waste, impact of packaging, sustainable product development and environmentally sustainable sourcing.

Going forward, we will seek to further integrate our ESG and climate agenda across the business, through, for example, how we allocate capital in operational projects and in informing product development.

See Trusted Partner on **pages 34 to 53**

4. METRICS AND TARGETS

BUILDING OUR ROADMAP TO NET ZERO

In early 2021, we formalised our commitment to Net Zero carbon emissions across the Group's operations by 2040. We set ourselves this target, ahead of international agreements, to galvanise the business around the imperative to act and support the food industry in leading on this issue.

Since 2018 we have targeted year-on-year improvements in carbon reduction. Recognising that longer-term planning is required to meet our commitment, in 2021, we started to develop our 'roadmap' to support our target. This roadmap will continue to be developed and updated in 2022 and beyond, as we identify initiatives to meet the overall target. We also intend to strengthen it with additional medium and longer-term interim targets, against a baseline to be determined, that hold ourselves and our business accountable, whilst looking to include incentivisation towards meeting these targets.

In developing this Net Zero roadmap, we follow IGD's recommendations in 'Building your Net Zero roadmap' – a guide for food and consumer goods companies that we supported the development of. It is based around five elements:

KEY ACTIVITIES IN 2021

- Total energy consumption in the UK decreased 9.0% compared to 2020. Since 2017, our UK electricity supply has been sourced through a renewable supply contract, representing 86.0% of our UK Scope 2 emissions.
- We continued our roll-out of switching to more efficient LED lighting at all sites. The project will deliver a 55% reduction in energy use per year when complete in 2022.
- In the US, energy consumption comprised 8% of the Group's total energy consumption in 2021. There are upcoming changes in refrigeration legislation which will require plant modification, and energy efficiency will be one of the considerations. There are also site-specific programmes to challenge and reduce refrigeration demand.
- Our facilities in China contributed 7% of Group energy consumption in 2021. We completed a wider investment programme across our China sites which has included a range of energy efficiency improvements.

About our carbon emissions measurement

This is the fourth year for which Bakkavor is reporting carbon emissions for the Group, including the US and China businesses as well as the UK.

Greenhouse gas ("GHG") emissions for the year to December 2021 have been measured and reported as required under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations, and the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018.

The total gross GHG emissions reported include all Scope 1 and Scope 2 emissions for the Group. 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. The Group's environmental management system is based on ISO 14001.

Scope 1 emissions are those that directly release GHGs including 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).

Scope 3 emissions are indirect emissions that are associated with the operation of the business that are not under our direct control.

The methodology applied to the calculation of GHG emissions is the 'GHG Protocol Corporate Accounting and Reporting Standard'. An 'operational control' boundary has been applied. Carbon factors from Defra's UK Government GHG Conversion Factors for Company Reporting and the International Energy Agency ("IEA") database are used to calculate the GHG emissions, where they are not separately provided by a supplier. Emissions are reported as tonnes of carbon dioxide equivalent (tCO_2e).

Emissions from 2018-2020 have been restated as an error was identified due to use of an incorrect conversion factor. This resulted in our Scope 1 emissions being overstated and therefore the restatement has resulted in a reduction in the emissions data from 2018-2020 as disclosed on pages 60 to 61.

The tables overleaf show GHG emissions and total annual energy for both the Group and Bakkavor Foods Limited (UK).

Bakkavor also discloses to CDP's climate change questionnaire, which can be found on www.cdp.net.

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES CONTINUED

GROUP GREENHOUSE GAS EMISSIONS (FOR THE PERIOD 1 JANUARY 2021 – 31 DECEMBER 2021)

The tables below show 2021 and prior years' annual data for GHG emissions for the Group and our UK business (Bakkavor Foods Limited). Data in prior years has been restated, as during the year we identified the use of an incorrect conversion factor being applied which overstated our Scope 1 emissions. In addition, other values have been amended to reflect more accurate billing statements. This has resulted in Group net carbon emissions for 2020 being 141,538 tCO_2e rather than 154,241 tCO_2e as previously reported and likewise for 2019 and 2018 as shown below.

In 2021 we saw a 6.1% reduction in our gross (location-based) carbon footprint (Scope 1 and 2), and a 4.1% decrease in our net (market-based) carbon footprint. In addition, the carbon efficiency of our production has improved as our intensity ratio (gross emissions per £million reported revenue) reduced by 10.0% to 92.6 tCO_2e/£m reported revenue. In the UK, gross emissions reduced by 14.2% and the intensity ratio decreased 15.6% to 71.8 tCO_2e/£m reported revenue.

			Emissions		
Bakkavor Group	**2021**	**Change**	**2020**	**2019**	**2018**
Scope 1: Emissions from combustion of fuel and operation of facilities (tCO_2e)					
UK	**70,336**	-16.2%	83,926	88,521	84,044
US	**11,264**	-22.4%	14,515	9,226	5,957
China	**17,754**	+110.9%	8,418	7,066	7,017
Total Scope 1 emissions	**99,354**	-7.0%	106,858	104,813	97,017
Scope 2: Emissions from purchased electricity and cooling (tCO_2e)					
UK	**44,012**	-10.9%	49,396	57,741	66,484
US	**6,495**	-14.4%	7,583	6,685	5,319
China	**23,375**	+12.9%	20,708	19,668	15,842
Total Scope 2 emissions (location-based)	**73,881**	-4.9%	77,687	84,094	87,645
Green tariff (tCO_2e)	**37,544**	-12.7%	43,007	50,431	56,900
Total Scope 2 emissions (market-based)	**36,337**	+4.8%	34,680	33,663	30,745
Total gross emissions	**173,235**	-6.1%	184,545	188,907	184,663
Total net (market-based) emissions (tCO_2e)	**135,691**	-4.1%	141,538	138,476	127,763
Intensity ratio (gross tCO_2e/£m reported revenue)	**92.6**	-10.0%	102.9	100.2	99.5

			Energy		
Bakkavor Group	**2021**	**Change**	**2020**	**2019**	**2018**
Scope 1 – Energy from combustion of fuel and operation of facilities including transport (kWh)	**352,728,213**	-9.9%	391,680,450	380,530,563	358,381,808
Scope 2 – Energy from purchased electricity and cooling (kWh)	**265,077,689**	-1.7%	269,787,168	275,983,366	275,919,192
Total energy (kWh)	**617,805,902**	-6.6%	661,467,618	656,513,928	634,301,000

UK GREENHOUSE GAS EMISSIONS (FOR THE PERIOD 1 JANUARY 2021 – 31 DECEMBER 2021)

			Emissions		
Bakkavor Foods Limited (UK)	**2021**	**Change**	**2020**	**2019**	**2018**
UK Scope 1 emissions from combustion of fuel and operation of facilities (tCO_2e)	**70,336**	-16.2%	83,926	88,521	84,044
UK location-based Scope 2 emissions from purchased electricity and cooling (tCO_2e)	**44,012**	-10.9%	49,396	57,741	66,484
Green tariff (tCO_2e)	**37,544**	-12.7%	43,007	50,431	56,900
UK market-based Scope 2 emissions (tCO_2e)	**6,468**	+1.2%	6,389	7,310	9,584
Total gross emissions (tCO_2e)	**114,348**	-14.2%	133,322	146,262	150,528
Total market-based emissions (tCO_2e)	**76,804**	-15.0%	90,315	95,830	93,628
Intensity ratio (gross tCO_2e/£m reported revenue)	**71.8**	-15.6%	85.1	88.5	91.0
Total renewable energy consumption (on-site generated), kWh)	**–**	–	–	–	–
Total non-renewable energy consumption (kWh)	**521,885,147**	-9.0%	573,288,445	579,759,118	575,834,160
Total energy consumption (kWh)	**521,885,147**	-9.0%	573,288,445	579,759,118	575,834,160

Totals may not reflect sum of values shown due to rounding.

SCOPE 3 EMISSIONS

Scope 3 indirect emissions are those associated with the operation of the business that are not under our direct control. These can range from the production of raw materials, transport of goods to site, disposal of waste, manufacturing of packaging, colleague commuting and business travel, as well as downstream use and disposal of our products by retailers and consumers. These are known to be significant contributors to organisations' overall carbon footprint but especially difficult to quantify, due to lack of primary data availability and being outside of direct control. In 2021, we started to analyse and assess data availability for our Scope 3 emissions in more detail in our UK business. We know that the vast majority of our Scope 3 footprint comes from 'purchased goods and services' – that is, the carbon footprint associated with the raw materials we purchase, however the data behind this is currently heavily dependent on secondary sources. Our first priority is to reduce these emissions through engaging in our supply chain as part of our responsible sourcing workstream, ahead of setting targets, until such time as more accurate data is available.

FINANCIAL REVIEW

We delivered a strong financial performance across all our regions in 2021, despite unprecedented challenges in the form of supply chain constraints and cost inflation. Like-for-like revenue, operating profit and margins have all progressed when compared to the prior year, and the pre-pandemic period of 2019. The increased profitability converted into a healthy cash performance with operational net debt lower and leverage at its lowest since the Group was listed on the London Stock Exchange in 2017.

REVENUE

Reported revenue increased by £78.1 million, or 4.4%, from £1,793.5 million in 2020 to £1,871.6 million in 2021.

Like-for-like revenue[1], which is determined after adjustments for currency movements and the closure of a factory in 2020, was up 6.2%, from £1,775.1 million in 2020 to £1,885.6 million in 2021. Of the 6.2% like-for-like growth, 5.9% was from volume and 0.3% from pricing. This reflects a year of recovery in the UK and China, as sales volumes returned following the easing of COVID-19 restrictions during the period, and due to the impact of the pandemic on 2020 sales, and of accelerating growth in the US.

UK

In the UK segment, reported revenue increased by 1.6%, or £25.8 million, from £1,566.6 million in 2020 to £1,592.4 million in 2021.

Like-for-like revenue, which excludes Alresford Salads, a business we closed in October 2020, increased by 2.9%, from £1,548.2 million in 2020 to £1,592.4 million in 2021. Alresford Salads contributed revenues of £18.4 million in 2020. In the UK, sales in the first quarter were adversely impacted by lockdown restrictions, however early signs of recovery became apparent in March as government restrictions began to ease. This improvement in sales gathered pace throughout the second quarter as mobility restrictions were eased further, and the frequency of shopping visits returned to pre-COVID-19 levels. In the second half of the year, as shopping habits normalised, we have seen year-on-year revenue return to pre-pandemic levels for pizza & bread, desserts and meals. Salads delivered a strong year-on-year performance from the second quarter driven by recovery in food-to-go, however remained behind 2019 levels as a result of the continuation of government guidance to work from home.

> We delivered a strong financial performance across all our regions in 2021, despite unprecedented challenges. Like-for-like revenue, operating profit and margins have all progressed when compared to 2020 and 2019. Strong conversion of profits to cash has driven our reduction in net debt, and leverage is at its lowest since 2017.

Ben Waldron
Chief Financial Officer

US

In the US segment, reported revenue increased by £33.6 million, or 22.9%, to £180.1 million in 2021 from £146.5 million in the prior year. The strengthening of Sterling in the period lowered reported revenue in 2021 by £12.9 million.

Like-for-like revenue, which is at constant currency, increased by 31.8%, from £146.5 million in 2020 to £193.0 million in 2021. The US has maintained its strong sales momentum from a combination of restrictions easing and growth with existing customers in both traditional grocery retail and online channels.

China

In the China segment, reported revenue increased by £18.7 million, or 23.2%, to £99.1 million in 2021 from £80.4 million in the prior year.

Like-for-like revenue, which is at constant currency, increased by 24.6%, from £80.4 million in 2020 to £100.2 million in 2021. The significant growth in China was due to sales volumes building back to pre-COVID-19 levels, albeit still slightly down on 2019. The performance was driven by a steady recovery in our foodservice customers in mainland China and strong growth in new channels, including office catering and retail. We also saw good momentum in the bakery business as it benefitted from our recent capacity investment and a return to growth in Hong Kong.

EXCEPTIONAL ITEMS

2021

There were no exceptional items to report.

2020

Included within Other administrative costs and Finance costs are exceptional items, which are adjusted for when determining the Group's Alternative Performance Measures, as management consider that when determining the underlying performance of the business these items should be disclosed separately by virtue of their nature or amount. Exceptional items comprise the following:

£ million	2021	2020
Restructuring, impairment and onerous lease provision	–	21.6
Accelerated amortisation of refinancing fees	–	1.7
	–	23.3

The Group incurred £23.3 million of costs presented as exceptional items. The closure of two salads factories in Alresford and Spalding led to restructuring charges of which £4.9 million related to cash restructuring costs, with a further £8.2 million impairment charge in respect of their tangible fixed assets. Following a review of assets, the Group also incurred a further impairment charge of £8.5 million in the UK business for assets that are now either redundant or related to products that have been discontinued in the year. In addition, the Group incurred £1.7 million of accelerated amortisation of refinancing fees following the Group's refinancing of its core debt facilities on 18 March 2020.

OPERATING PROFIT

Operating profit increased by £40.0 million, or 64.5%, from £62.0 million in 2020 to £102.0 million in 2021 with margins increasing by 190 basis points to 5.4%. In the UK, operating profit increased from £69.1 million in 2020 to £97.8 million in 2021. In the US, operating profit increased by £8.3 million from £0.6 million in 2020 to £8.9 million in 2021. In China, the operating loss is £3.0 million lower than 2020 at £4.7 million. The increase in profitability across all three regions is due to the benefits from the return of consumer demand as COVID-19 restrictions eased and the corresponding increase in volume, with the US also benefitting from increased volumes as capacity investments allowed for further growth.

Increasing raw material inflation and the impact of labour shortages in the UK and US have partially offset the incremental profit from volume growth in the second half of the year, and further inflationary pressure is expected into next year. Whilst the Group incurred significant costs in the prior year, as the business responded to the COVID-19 outbreak with enhanced health and safety and hygiene protocols, these controls have remained in place and much of the cost has continued into 2021. Operating profit also includes a credit of £3.0 million (2020: £9.7 million) arising from the reassessment of the need for certain commercial accruals. During the year, the Group reported a net credit of £7.2 million (2020: £1.4 million) relating to an insurance claim for business interruption and damage to assets at one of its operating sites. The overall increase in operating profit for the period is after provisions made for short-term performance bonuses as a result of the improved trading.

There were no exceptional items in 2021 and therefore adjusted operating profit for this year is the same as operating profit at £102.0 million. This is an increase of 22.0% from the £83.6 million adjusted operating profit reported for 2020. Adjusted operating profit margin increased by 70 basis points to 5.4% in 2021. The exceptional items in the prior year all relate to the UK segment with UK adjusted operating profit increasing from £90.7 million in 2020 to £97.8 million in 2021.

FINANCE COSTS

Finance costs decreased by £3.9 million, or 18.6%, from £21.0 million in 2020 to £17.1 million in 2021. The costs for 2020 include £1.7 million for the accelerated amortisation of refinancing fees following the Group's refinancing of its core debt facilities during the period. The remaining £2.2 million is due to a decrease in borrowing costs from lower average debt levels in the period and the repayment of term loans in the year. The Group's cost of bank debt remains at circa 3% per annum, 50 basis points lower than previously reported following debt repayments in 2021.

1 Alternative Performance Measures ("APMs"), including 'like-for-like', 'adjusted' and 'underlying' are applied consistently throughout the 2021 Annual Report and Accounts. The APMs are defined in full and reconciled to the reported statutory measure in Note 36 of the Notes to the Consolidated Financial Statements.

FINANCIAL REVIEW CONTINUED

TAX

The Group tax charge for the period increased by £14.5 million, from £10.1 million in 2020 to £24.6 million in 2021. The charge for the year represents an effective tax rate of 30.2% on profit before tax of £81.4 million. Excluding exceptional items and the change in fair value of derivative financial instruments, the underlying[1] effective tax rate was 29.7% and exceeds the 21.7% underlying[1] rate for the corresponding period last year. The underlying[1] rate is 10.7% higher than the UK statutory tax rate of 19%, with 9.7% of the increase relating to the UK Government's announcement to increase the corporation tax rate from 19.0% to 25.0%, which will take effect from 1 April 2023. Whilst this change has no impact on current taxes in the period, it does affect our UK deferred tax liabilities, as these were previously provided for at 19.0%. Given the change to rates has been enacted, the Group has now provided for these liabilities at a rate of 25.0%, being the rate at which these liabilities are expected to crystallise. The effective tax rate for 2022 is expected to be slightly in excess of the UK statutory tax rate and in the range of 20% to 22%.

A reconciliation of the expected tax rate to the effective tax rate is as follows:

£ million	52 weeks ended 25 December 2021	
Profit before tax	**81.4**	
Expected tax at 19.0%	**15.5**	19.0%
Impact of:		
Non-deductible items	**(1.8)**	
Adjustment in respect of prior periods	**1.5**	
Losses carried forward not recognised	**0.7**	
Unprovided deferred tax assets now recognised	**(0.1)**	
UK deferred tax rate change	**7.9**	
Overseas tax rates	**0.9**	
Total tax charge	**24.6**	30.2%

EARNINGS PER SHARE

Basic earnings per share has increased from 5.9 pence for 2020 to 9.8 pence in 2021, reflecting the benefit from higher sales volumes across the business as COVID-19 restrictions have eased, as well as increasing efficiencies across our factories.

Adjusted[1] earnings per share, which is calculated before exceptional items and the change in fair value of derivative financial instruments, has increased to 10.4 pence for 2021 from 8.7 pence in 2020, reflecting the improvement in underlying trading in the period. The weighted average number of shares in issue during both 2021 and 2020 was 579,425,585.

CASH FLOW

Net cash from operating activities, which is calculated before capital expenditure but after payments for exceptional items, increased by £55.5 million from £88.5 million in 2020 to £144.0 million in 2021. The majority of this benefit was driven by working capital improvements, which was to be expected given the Group's negative working capital cycle, combined with the increase in operating profit for the year. In addition, tax paid has decreased by £10.0 million following higher payments in 2020. This was due to changes to UK legislation that required the estimated tax due for a financial year to be paid within that period and the cash benefit from the UK corporate tax super-deduction on investments since April 2021. The Group's interest paid has also decreased by £3.5 million mainly due to 2020 including £4.2 million of refinancing fees compared to £0.9 million of fees in 2021. The interest benefit from lower debt levels was largely offset by phasing of interest payments.

Net cash used in investing activities decreased by £1.3 million in the period from £56.2 million in 2020 to £54.9 million in 2021. This was primarily due to lower capital expenditure in the prior year and the first quarter of 2021 as the Group delayed investment spend to mitigate against the impact of COVID-19 restrictions.

£ million	52 weeks ended 25 December 2021	52 weeks ended 26 December 2020
Operating profit	**102.0**	62.0
Depreciation and other non-cash items	**66.1**	87.7
Net retirement benefits charge less contributions	**(1.4)**	(1.1)
Working capital movements	**2.4**	(22.1)
Interest, share scheme settlements and tax paid	**(25.1)**	(38.0)
Net cash generated from operating activities	**144.0**	88.5
Dividends received from associates	**0.7**	0.1
Purchases of property, plant and equipment (net)	**(55.6)**	(56.3)
Cash impact of exceptional items	**1.2**	3.6
Refinancing fees	**0.9**	4.2
Free cash flow[1]	**91.2**	40.1

Free cash flow for 2021, which is the key measure the Directors use to manage cash flow in the business, was an inflow of £91.2 million, an improvement of £51.1 million on the prior year due to the factors set out above.

DEBT AND LEVERAGE

Partly offsetting the £91.2 million of free cash inflow in the period was the payment of the previously suspended 2019 final dividend of £23.2 million, an interim dividend of £15.3 million, £0.9 million of financing fees and £1.2 million in respect of exceptional items recorded in the prior year. Overall, this has resulted in a decrease of £39.7 million in operational net debt during the year to £293.7 million. Leverage (the ratio of operational net debt to adjusted[1] EBITDA) was 1.9 times at December 2021 and within the Group's target range of 1.5 – 2.0 times. The Group's liquidity position remains strong with headroom of over £190 million against debt facilities of £489 million and comfortable headroom against all financial covenants.

From a debt maturity perspective, on 9 March 2021, the Group extended the maturity date of £430 million of its core debt facilities from March 2024 to March 2025. On 1 March 2022 the Group extended the maturity date of £430 million of its core debt facilities from March 2025 to March 2026. In April 2021 and September 2021 the Group voluntarily repaid £37.5 million of its most expensive debt that was due to mature in June 2024. The interest margin on this loan was LIBOR+4%. In November 2021 the Group repaid an additional term loan of £20 million.

INVESTMENT AND RETURNS

The Group's return on invested capital[1] ("ROIC") improved by 60 basis points from 6.6% at the end of 2020 to 7.2% as at 25 December 2021. This reflects the improved profitability across the Group driven by the lifting of COVID-19 restrictions combined with benefits from recent capital investments being realised, particularly in the US. During 2021 capital investment was limited in quarter one as projects were rephased to later in the year due to the COVID-19 restrictions in place at that time. Thereafter further investment took place including an increase in ready meals capacity in the US and in China we completed the development of our new site in Wuhan and our investment in the replacement site in Xi'an is underway. In addition, this year the UK has benefitted from productivity investments in smart technology to improve our management control and review processes. Over the medium term, the Group expects to see an improvement in ROIC as recent investments, including the key development projects, deliver an increase in returns. The Group also plans to continue to spend circa 4.5% per annum of reported revenue on capital investment going forward with a focus on return enhancing projects.

PENSIONS

Under the IAS 19 valuation principles that are required to be used for accounting purposes, the Group recognised a surplus of £37.2 million for the UK defined benefit scheme as at 25 December 2021 (26 December 2020: surplus of £11.2 million).The increase in the surplus is mainly due to the liability hedging in place for the scheme.

The Group and the Trustee agreed in November 2020 the triennial valuation of the UK defined benefit pension scheme as at 31 March 2019. This resulted in a funding shortfall of £11.7 million, which will be paid over an agreed recovery period ending on 31 March 2024, with payments of £2.5 million per annum.

DIVIDEND

We were pleased to reinstate dividend payments during the year, and we now propose a final dividend of 3.96 pence per Ordinary share. This provides a total dividend for 2021 of 6.60 pence per Ordinary share, and would be an increase of 10.0% on 2019 (no dividend was paid in respect of 2020). If approved by shareholders, the final dividend will be paid on 30 May 2022.

CAPITAL ALLOCATION POLICY

The Group remains disciplined in its approach to allocation of capital with the overriding objective being to enhance shareholder value. Our capital allocation framework is as follows:

- disciplined capital investment;
- reduce and maintain leverage to within target range;
- a progressive dividend;
- targeted approach to considering inorganic opportunities that may arise.

Ben Waldron
Chief Financial Officer
7 March 2022

STAKEHOLDER INTERACTION

Fulfilling our purpose by building **strong relationships with our stakeholders**

OUR APPROACH

The Group Board is responsible for leading stakeholder engagement, ensuring that we fulfil our obligations to those impacted by the business.

We understand that our value creation and the long-term growth and success of the business are dependent on engagement with stakeholders, and we must build a shared understanding and common path forward. We are committed to ongoing and constructive engagement with our stakeholders to ensure we incorporate their views and interests when making decisions across our business activities. As we come out of the pandemic and face unprecedented industry-wide challenges, balancing the needs of our stakeholders continues to be an important and challenging task.

HOW WE IDENTIFY OUR STAKEHOLDERS

Through stakeholder analysis, we have clearly identified five groups of stakeholders that we impact on as well as those groups that can influence and impact on Bakkavor. We engage these key stakeholders through a variety of channels, many of which are tailored for specific stakeholder groups. These include engagement with representative bodies, one-to-one interactions, and relevant multi-stakeholder platforms.

In the following pages, we have provided an overview of the stakeholder groups, their priorities, and the way in which the Group Board acted with regards to these groups when taking strategic action and decisions during the year.

SECTION 172(1) STATEMENT

The Group Board has a duty under Section 172 of the Companies Act 2006 to promote the success of Bakkavor for the benefit of its members as a whole.

The Group Board decision-making process through the year has had regard for the interests of our colleagues, our suppliers and customers and investors, for the impact of our operations on the community and the environment, and for maintaining our reputation for having the highest standards of business conduct.

Among and within our key stakeholder groups we understand there can be different and sometimes conflicting views. As part of our engagement, we seek to balance these competing interests and respond in a way that maximises the value for all those connected with the organisation.

In 2021, we have updated the way that Group Board papers are written to ensure that our Section 172 considerations are clearly considered and recorded. Each Group Board paper includes a section to ensure the Group Board has fully considered all relevant stakeholders and the medium to long-term consequences of its decisions and recorded the output of this.

GROUP BOARD PERFORMANCE

The following pages comprise our Section 172(1) statement setting out how the Group Board has, in performing its duties over the course of the year, had regard to the matters set out in Section 172(1) (a) to (f) of the Companies Act 2006.

We have also included in the following sections of our Annual Report and Accounts how we have taken the view of our stakeholders into account when making key decisions during the year.

- **Group Board activities:** The key activities of our Group Board are set out in the Corporate Governance Report, which includes a summary of the key decisions made and the stakeholders considered. Read more on pages 99 to 102.
- **ESG:** ESG is a key priority for us, and our Trusted Partner strategy is integrated into our decision-making as we care about the impact of our business on the community and the environment. Progress on our Trusted Partner initiatives can be found on pages 36 to 37 and see our TCFD section on pages 54 to 61.

OUR COLLEAGUES

We have c.19,000 colleagues located in 46 sites across the UK, US and China.

WHY WE ENGAGE:

- Our colleagues are the heart of our business, so it is important to understand what matters to them and ensure we incorporate their views into our Group Board decision-making.
- We want our colleagues to feel valued so that we can achieve our vision together.

HOW WE ENGAGE TO BUILD AND MAINTAIN STRONG RELATIONSHIPS:

- Employee Engagement Survey ("EES").
- Site and Group Employee Forums.
- Whistleblowing hotline 'Speak Up!'
- Dedicated workforce engagement Non-executive Director.
- Bakkavor intranet, quarterly colleague magazine (Just Made) and monthly ESG newsletter.

WHAT MATTERS MOST TO OUR STAKEHOLDERS:

- A safe and inclusive place of work.
- Colleagues' voice is part of the Group's decision-making.
- To feel supported and have the opportunity to realise their potential.

See Our Vision, Purpose and Values on **pages 16 to 17**

HOW WE ARE RESPONDING:

- We reviewed the results of the EES, and responded to the feedback by supporting the renewal of the Group's values, and also approved a significant investment into two training and development programmes that were launched in 2021: the Front-Line Leaders Development Programme and an Executive Leadership Development Programme.
- During the year, Jill Caseberry was appointed as the Company's designated workforce engagement Non-executive Director, providing colleagues with a direct channel of communication to an independent champion at Group Board level. Jill attended an initial session with Bakkavor's SEFs and GEF to introduce herself and explain her role. More recently, in February, she met with the GEF to discuss the alignment of Executive remuneration with the wider company pay policy.
- We continued to make progress in creating a better place to work and have taken several steps to support the retention and recruitment of talent across our business. This included enhancing our recruitment programme, offering flexible shift patterns, providing free transport to sites and referral bonus schemes. We also took the decision, after an in-depth benchmarking of our factory labour rates across the UK, to implement an out-of-cycle pay increase to the majority of our factory-based colleagues, as well as out-of-cycle pay increases across all of our US sites of up to 20%.
- We have made positive progress on inclusion, diversity and wellbeing during the year. We formalised a Wellbeing Steering Committee led by our CPO, and our CFO is the Group Board sponsor, and also convened the I&D Forum, chaired by the Group General Counsel and Company Secretary.
- Many colleagues from central technical and local sites have continued to work in close co-operation with regulatory bodies, including the UK Government and UK Health Security Agency (previously Public Health England), our colleague site representatives, and trade unions to consider the views of our stakeholders and help maintain a safe working environment and adapt our ways of working as the guidance in relation to COVID-19 has evolved.
- Protecting our colleagues remains a priority. The Group Board received regular updates on food safety, health and safety and our technical strategy through the year. In 2021, we continued to adapt to the changing impact of the COVID-19 pandemic and made good progress in standardising food safety and health and safety practices and risk assessments across the business. Where appropriate, we have also sought to update policies and hold quarterly technical update meetings with representatives from the UK, US and China to discuss key issues and agree action plans.
- The investment to integrate all HR systems into one platform, SuccessFactors, has continued to progress well through the year and is due to go live in Q1 2022. This will bring standardised and streamlined HR processes across the business and allow colleagues easy mobile access to the information they need.

WHAT WE HAVE DELIVERED:

650
colleagues enrolled on the Front-Line Leaders Development Programme

83%
response rate to our most recent EES

New joiner onboarding process time reduced by
25%

STAKEHOLDER INTERACTION CONTINUED

CUSTOMERS

Our customers include UK grocery retailers, US grocery retailers and online direct to consumer brands, as well as international foodservice brands operating in China.

WHY WE ENGAGE:

- We recognise the importance of building long-term strategic relationships with our customers through ongoing engagement and investment.
- By engaging and sharing ideas with customers we can identify new ways of working together.
- We need to understand the needs of our customers, as well as the demands of the consumer, to create innovative products and respond to new trends that create value for our customers.
- To support our mutual business models by a fair and transparent approach to sharing information, including detail of input costs, and in some cases the establishment of pass-through mechanisms.
- We can assess consumer satisfaction through regular engagement with our customers and gaining consumer insight harnessed from our dedicated insight team, category experts, market data and consumer and customer research and feedback, thus ensuring our products are of the highest quality and meet the required technical and food safety standards.
- To support our customers' sustainability goals and ambitions as a trusted partner.

HOW WE ENGAGE TO BUILD AND MAINTAIN STRONG RELATIONSHIPS:

- Many colleagues across product development, marketing, commercial and technical functions engage with our customers daily.
- Online surveys and focus groups.
- Customer audits.
- Working collaboratively on shared ESG priorities.

WHAT MATTERS MOST TO OUR STAKEHOLDERS:

- Ensure responsiveness to customers needs on a timely basis.
- Manage availability of labour and raw materials to help meet demand.
- Minimise disruption due to COVID-19 and industry-wide challenges across the supply chain and labour.
- Understand consumers' needs and leverage our insight to develop innovative and great-tasting fresh products.

HOW WE ARE RESPONDING:

- Whilst consumer demand remained depressed at the start of 2021 with the country in lockdown, we took the decision to re-engage our commercial and development teams and work closely with our customers to develop an exciting pipeline of products to reinvigorate our categories. Our new product launches have been well received and included the re-launch of one of our key customers' salads ranges, with over 60 new fresh and natural products, the expansion of our Pizza Express offer by leveraging our multi-category capability and the re-launch of several hearty new soups, increasing ingredient quality. We also launched our own brand, The Delicious Dessert Company, with products in 900 stores across two strategic customers.
- Despite persisting industry-wide challenges, we have continued to work collaboratively to ensure our customers' shelves remain well stocked with our high-quality products, and to support our customers with outbound distribution from our factories to stores. To help manage our own labour requirements, we have, for a small number of sub-categories, taken the decision to focus on core ranges to ensure we maintain our customer service levels, and this has been supported by our customers.
- We have taken several actions to minimise operational disruption in response to industry-wide supply chain challenges, working collaboratively with our customers on sourcing raw materials, and our pricing models mean we are able to pass on the inflationary impact of key raw materials. Following discussions with our customers, we are increasing pricing for 2022 in line with our expectations, which alongside our ongoing efficiency drive, will help offset inflation in the costs which sit outside of our pricing models. With inflation pressures expected to persist, and in certain instances heighten, we expect to continue the dialogue with our customers around pricing through 2022.
- We have also continued to focus on managing our ranges in specific categories, ensuring continuity of supply by utilising our strategic supplier relationships, benefitting from our category procurement expertise, and we have continued to support our customers who manage outbound distribution from our factories to stores.
- We have supported our strategic customers' growth opportunity in the US with capital investment to enhance capacity, including investments in ready meals capacity at our Carson and Charlotte factories. In 2022, we expect to complete our ongoing investment to enhance our houmous processing capability and capacity at Carson and to invest to further increase our capacity for ready meals.
- We have supported our foodservice and retail customers in China and collaborated with plant-based specialists to launch several new products, supporting the consumer demand for healthier, more sustainable and lifestyle related products.

WHAT WE HAVE DELIVERED:

>950
number of new products in 2021

100%
of UK sites AA+ and A+ BRCGS grade

SUPPLIERS

We have well-established supplier partnerships across a global network of over 900 suppliers with whom we collaborate closely, including in areas such as responsible sourcing and detailed Brexit-related planning.

WHY WE ENGAGE:

- Being able to source high-quality raw materials is an important factor in our ability to deliver value and innovation.
- Availability of labour and raw materials helps maintain the continuity of supply.
- Sourcing in a way that is environmentally sustainable and ethically sound ensures the integrity of our supply chains and our responsibilities as a manufacturing partner.

HOW WE ENGAGE TO BUILD AND MAINTAIN STRONG RELATIONSHIPS:

- Procurement colleagues maintain regular dialogue with suppliers over email, meetings, workshops, and attendance at conferences and supplier relationships are built on a foundation of contractual mutual agreement.
- Our Supplier Code of Conduct sets out our expectations of our UK suppliers, forming the basis of our responsible sourcing requirements, including human rights, environmental sustainability and technical integrity.
- We engage with suppliers on a one to one basis to agree specific terms of supply, review performance and the requirement for improvement plans.
- All raw material and packaging suppliers, and agents, are required to be Supplier Ethical Data Exchange ("Sedex") registered and we utilise the Sedex online supply chain platform which allows us to monitor and assess labour practices in our supply chain.

WHAT MATTERS MOST TO OUR STAKEHOLDERS:

- Opportunities to improve and innovate to help grow their business.
- Clarity of forecast requirements and accuracy of delivery.
- A partnership underpinned by trust and transparency.
- Minimising disruption due to Brexit and the COVID-19 pandemic.
- Fair and transparent discussions on movements in input costs and the input on pricing.

HOW WE ARE RESPONDING:

- We utilised our centralised category procurement structure (a team of product and supplier experts) and our Bakkavor Inbound Logistics ("BIL") centre of excellence for all direct imports to the UK. We have worked successfully with suppliers globally to mitigate the impact of COVID-19, Brexit and supply chain disruption due to labour and raw material shortages, HGV driver availability and inflationary pressures.
- Sourcing plans continue to be reviewed in order to build further resilience in our inbound supply chain.
- BIL has provided effective solutions to Brexit related changes, including a centralised team for customs declarations, end to end provision of logistics solutions, and EU based consolidation and cross-docking hub, enabling us to consolidate our EU supplies into trucks and reduce potential customs and Export Health Certificate ("EHC") errors or delays.
- The roll-out of our responsible sourcing strategy has seen the business evaluate over 500 direct suppliers on environmental, ethical and integrity issues, and engage directly with suppliers in aligning their performance to our requirements, as set out in our Supplier Code of Conduct.
- Our pricing models with customers mean we are able to pass on the inflationary impact of key raw materials and these mechanisms are working effectively. For other raw materials, packaging, freight and labour costs we have been successful in increasing pricing for 2022 in line with our expectations which, alongside our ongoing efficiency drive and focus on cost control, will help offset inflation in these costs.
- We continue to work closely with our customers on supply performance, collaborative buying and cost models.
- We have continued to successfully maintain our operations with minimal disruption through the COVID-19 pandemic and the impact of Brexit.

WHAT WE HAVE DELIVERED:

100%
tier 1 UK suppliers engaged with on environmental and social issues through our engagement programme

100%
of our UK business's direct suppliers registered with Sedex

100%
sustainable sourcing practices for palm oil, soy in animal feed and paper packaging

57%
raw materials sourced directly from UK suppliers

STAKEHOLDER INTERACTION
CONTINUED

INVESTORS

We recognise the importance of engaging with all shareholders and prioritise effective dialogue to ensure that we capture and embrace feedback relating to areas of interest and areas of concern, and to ensure that our obligations are met. We understand that we have a responsibility to ensure that our shareholders' interests are promoted and we remain committed to delivering value for them.

WHY WE ENGAGE:

- We want our shareholders to understand our vision and strategy, so we can demonstrate how we create value.
- We want to have an effective channel of communication with existing and potential shareholders to understand what is important to them.

HOW WE ENGAGE TO BUILD AND MAINTAIN STRONG RELATIONSHIPS:

- Investor meetings and conferences, investor events, ongoing investor calls and correspondence with the Head of Investor Relations, CFO, CEO, and the investment community.
- The Chairman, Senior Independent Director and Committee Chairs are available for direct meetings with shareholders where required.
- We welcome queries from shareholders via telephone, post, or email.
- Our website (www.bakkavor.com) is regularly updated and provides a library of all relevant shareholder communications including the Annual Report and Accounts, results releases and share price information.
- Annual General Meeting ("AGM") and one-to-one meetings.
- CDP (formerly the Carbon Disclosure Project) reporting.

WHAT MATTERS MOST TO OUR STAKEHOLDERS:

- Delivering long-term sustainable profitable growth.
- To be kept up to date with the key developments in the business and the issues we are facing.
- Understand the business's exposure to climate risks, including those associated with the transition to a low carbon economy.

HOW WE ARE RESPONDING:

- The Group Board has oversight of the Group's allocation of capital and in 2021 the Group has demonstrated strong progress with a strengthened financial position, reduction in debt, reinstated dividend and capital expenditure focused on capacity enhancements and automation.
- Regular updates are provided by the CFO to the Group Board on matters raised by shareholders and analysts, as well as updates on the composition of the Group's share register.
- Following our financial results, the CEO, CFO and Head of Investor Relations discussed the Group's financial performance in meetings with institutional shareholders and analysts. The key areas of focus being the impact of COVID-19, labour availability and its impact on the supply chain, inflationary headwinds, leverage reduction, dividend and international growth opportunities. These matters are covered in further detail in the Chief Executive's Overview on pages 6 to 9, Divisional Overview on pages 30 to 33 and Financial Review on pages 62 to 65.
- We have sought to enhance our financial results reporting by evolving our highlights page to more clearly summarise our financial, strategic and operational performance. We have also changed our segmental disclosure, with the performance of the US and China business previously reported together under 'international' now shown separately.
- We have increased our engagement on ESG matters; the Group Board received regular updates on the implementation of our Trusted Partner strategy, reviewed and approved the creation of a Group ESG Executive Committee, extended the remit of the Nomination Committee to include ESG governance and oversight, and appointed Umran Beba as designated Non-executive Director on ESG matters and Jill Caseberry as designated workforce engagement Non-executive Director.
- We enhanced our understanding of our climate risk exposure and improved disclosure to report on the recommendations of the TCFD, and have expanded our disclosure to CDP, reporting on Forests and Water questionnaires for the first time.
- Whilst it was not possible to attend the Company's AGM in person in 2021, all shareholders were provided with a facility to submit questions by email or post in advance of the AGM.
- We received shareholder queries relating to the steps the Group has been taking to mitigate the impact of COVID-19 and protect our workforce, along with the financial impact of the pandemic for our workers. Our responses to these questions can be found on our website at https://www.bakkavor.com/en/investors/shareholder-information/default.aspx.

WHAT WE HAVE DELIVERED:

76
meetings with investors and analysts, including two conferences

1.9x
leverage within target range

6.60p
per share
total 2021 dividend

COMMUNITIES

We operate from 46 sites across the UK, US and China covering multiple regions. We want to act responsibly and be a trusted partner to our local communities.

WHY WE ENGAGE:

- To be a 'Trusted Partner' and maintain our licence to operate.
- To support local economic development by creating jobs and supporting local services.
- To remain an employer of choice in our local communities, and attract and retain the best talent.

HOW WE ENGAGE TO BUILD AND MAINTAIN STRONG RELATIONSHIPS:

- We support local charities, schools, sports teams, and projects important both to communities and our colleagues through fundraising, in-kind donations and educational activities.
- We have Group charity partnerships for which we fundraise with a charity events programme.
- We undertake food redistribution, through FareShare and Company Shop.
- We provide employment opportunities, including apprenticeships and graduate placements through an award-winning early careers programme.

WHAT MATTERS MOST TO OUR STAKEHOLDERS:

- For the business to operate in a safe, responsible, and sustainable way, and to act with integrity.
- To reduce the impact of the business on the environment by reducing food waste, carbon emissions and using more sustainable packaging as high priorities.
- Support local community initiatives and provide economic opportunities for local people.

HOW WE ARE RESPONDING:

- Our Trusted Partner ESG strategy includes Engagement and wellbeing in our workplaces and communities as one of its three focus areas in order to support our ability to deliver value to our communities. This includes building communities through our sites supporting local charities, schools, sports teams, vulnerable people, and projects. Further details can be found in the Trusted Partner section of this report on pages 34 to 53.
- The Group Board is accountable for ensuring that climate-related issues are considered in terms of their impact on the long-term strategy of the Group. It provides oversight of progress and implementation of our Net Zero commitment and reviews Group policies and commitments, including the Net Zero target and KPIs' progress and approach.
- The Group Board has reviewed and considered the Group's community initiatives, how we are delivering on these and our progress in doing so.
- We also have two Group corporate charity partners – Action Against Hunger and FareShare – as part of a three-year programme running from 2019 to 2021. In December 2021, the UK business announced its new charity programme, including a three-year partnership to support GroceryAid and Natasha Allergy Research Foundation, as well as the launch of a new matched giving scheme to support UK site fundraising efforts. In parallel, the Group's US business announced its support of four foodbanks local to its sites, and a matched giving scheme to raise further funds to support each foodbank.

WHAT WE HAVE DELIVERED:

10.0%
decrease in emissions intensity ratio (gross tCO_2e /£m reported revenue)

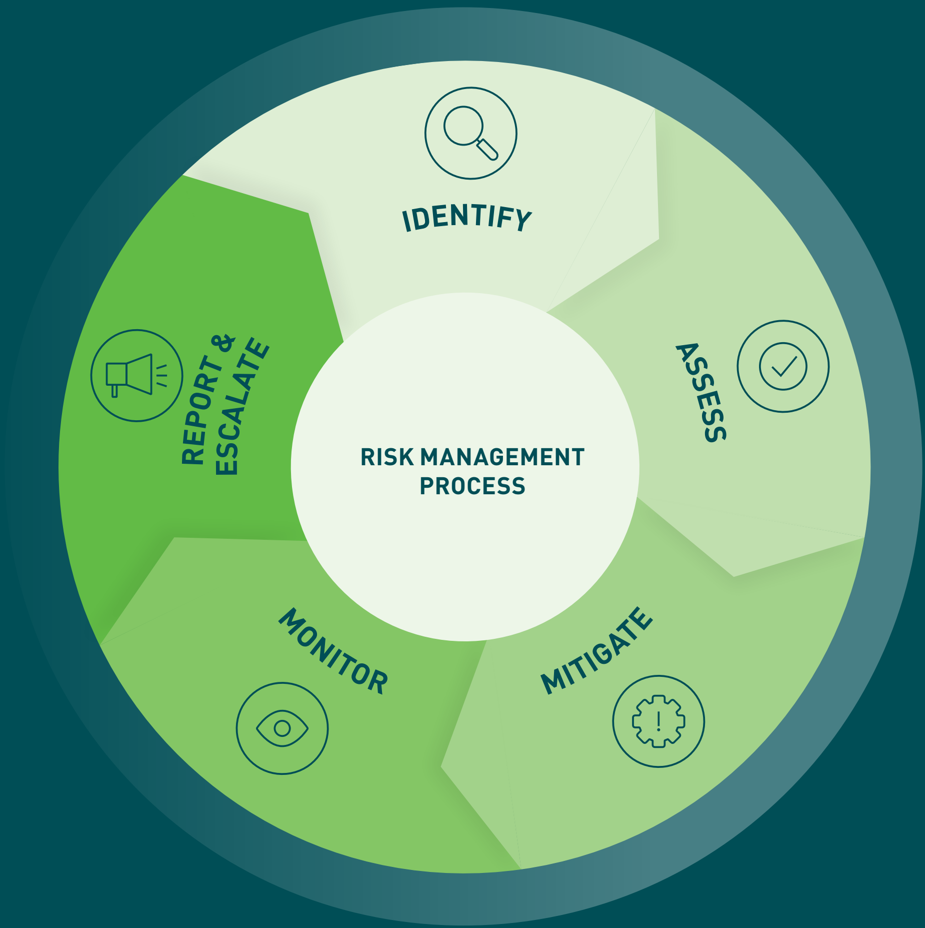
>400k
meal equivalents redistributed to our charities and recycled more than 21,000 as animal feed

400
tonnes of plastic packaging removed

200
apprentices in our programme which was ranked number 1 in TheJobCrowd's survey in the Consumer Goods & FMCG sector

RISK MANAGEMENT AND RISKS

OUR RISK MANAGEMENT PROCESS AND FRAMEWORK



IDENTIFY
key risks

ASSESS
the potential impact and likelihood

MITIGATE
using appropriate controls and other management actions

MONITOR
the internal and external environment for potential changes to risks and the continued efficacy of controls through a regular review

REPORT & ESCALATE
on risks to the Regional Risk Committees, Group Risk Committee and A&RC periodically and escalate risks in a timely manner when necessary

Our approach to risk underpins the **sustainable delivery of our strategic objectives**

Our risk management process is designed to support the Group as we deliver our Group Strategy and provide long-term sustainable value, whilst protecting the interests of our stakeholders, and safeguarding our assets including our colleagues, finances, and reputation.

Our approach

The Group Board is responsible for ensuring the effective identification and management of key strategic and emerging risks in the current year and in the future to support the Group in delivering its strategic objectives. In addition, the Group Board reviews and approves the ongoing risk management process. This includes the internal control system, risk management framework, policies and procedures that outline what can be considered an acceptable level of risk for an estimated level of return, underpinned by the setting of the risk appetite and risk tolerance of the Group on an annual basis.

As part of the Group Board's activity, we maintain a formal Risk Register, in accordance with the 2018 UK Corporate Governance Code (the "2018 Code"). The Risk Register identifies the principal risks faced by the Group, the likelihood of their occurrence and the potential impact on the Group, as well as the key mitigating actions used to address them, with ownership of each of the principal risks assigned to a Senior Executive. The Risk Register also outlines how we plan to minimise future probable risks within the framework of Bakkavor's policies and procedures, Code of Conduct and Business Ethics. The Risk Register is updated on a quarterly basis and reviewed by the Audit and Risk Committee, and subsequently the Group Board. All colleagues receive health and safety and food safety training as part of their induction to the Group and this training is refreshed.

The Audit and Risk Committee reviews and reports to the Group Board on the effectiveness of the Group's risk management process and internal control system. This is delivered through review of regular reports received from the Management Board, Risk Committees and Senior Executives, in conjunction with the output of internal audit work performed by our external adviser, KPMG LLP ("KPMG"), and advice from other internal and external advisers. These reports provide detail on current and emerging risks that are relevant to business activity, the effectiveness of internal controls in dealing with these risks and an update on the implementation of approved mitigating actions.

Bakkavor Group's policy is to identify, assess and monitor the Group's principal and emerging risks, as well as managing and responding to the risks appropriately. Our risk management framework sets out how risks are identified and managed to support the Group to deliver on its strategic objectives and incorporates both a top-down approach to the identification of the Group's principal risks and a bottom-up approach identifying operational risks. Where new risks are identified and/or existing or emerging risks evolve, action plans are developed or adjusted to mitigate each risk and include clear allocation of responsibilities and timescales for completion. The actions chosen to mitigate the risks will be subject to the appetite for each risk as determined by the Management Board, reviewed by the Audit and Risk Committee, and subsequently approved by the Group Board. Progress towards implementing these plans is monitored on a timely basis and reported on in the quarterly risk committee meetings, with the output reported to the Group Board through the Audit and Risk Committee.

Emerging risks

While not having a significant impact on the business currently, as part of our risk assessment process the Group captures and monitors emerging risks, which have the potential to adversely impact the Group in the future. Their potential effects on the delivery of our strategy are considered at all our regular risk reviews using horizon scanning inputs from both internal and external sources. During the full-year 2021, the emerging risks identified and discussed with the Audit and Risk Committee included the impact of health and wellness trends on consumer demand, climate change and the longer-term impact of staff shortages. We will continue to review and develop our action plans to mitigate the impact of these risks on the Group.

Risk appetite

The Group Board reviews and sets its risk appetite for each of the principal risks on an annual basis. This helps provide clear boundaries on the acceptable level of risk and ensures that our decision-making, to support delivery of our strategic objectives, takes this into consideration.

The Group's approach is to minimise exposure to reputational, financial, and operational risk, while accepting a risk/reward trade-off in supporting the delivery of its strategic objectives. As a producer of fresh food, food safety and integrity are of paramount importance and the Group Board has a low-risk appetite for risks which may impact this area, with all practical efforts made to mitigate them. Another area of low-risk appetite is in relation to health and safety. As a large employer, ensuring the health and safety of our colleagues is key, and we take all practical precautions to protect people during the time they are on our sites and ensure compliance with laws and regulations.

RISK MANAGEMENT AND RISKS CONTINUED

OUR RISK MANAGEMENT PROCESS AND FRAMEWORK

TOP-DOWN APPROACH
Identification of the Group's principal risks

GROUP BOARD

Ensures the effective identification and management of key strategic and emerging risks.

AUDIT AND RISK COMMITTEE

Reports to the Group Board on the effectiveness of the Group's risk management process and internal control system. This is informed by regular reports from the Management Board, risk committees and Internal and External Auditors.

Refer to the Report of the Audit and Risk Committee on pages 113 to 119 for the activities of A&RC in Full-Year 2021.

MANAGEMENT BOARD

Reports to the A&RC on the outcomes of the individual regional and corporate risk committee reports on a quarterly basis.

CORPORATE RISK COMMITTEE	UK RISK COMMITTEE	US RISK COMMITTEE	CHINA RISK COMMITTEE

These Committees perform a quarterly review of the Group's principal and emerging risks outlined in the Group Risk Register and provide a summary of the changes to the Management Board.

Each Committee is chaired by the Group Head of Risk with senior executive and Management Board representation.

SENIOR EXECUTIVES AND OTHER MANAGEMENT

The Risk Register is maintained by the assignment of individual principal risks on the register to Senior Executives whilst they also manage and monitor their own risks through timely review.

Additional risks, and the evolution in existing or emerging risks, are escalated to their respective risk committees for review. Regular reports are provided to the Management Board, the A&RC and the Group Board informing on their risk assessment from key functions such as technical (including health and safety, food safety), HR, finance, legal and IT.

BOTTOM-UP APPROACH
Identification of operational risks, including food safety, health and safety and property risks.

Day-to-day reporting to Senior Executives on key performance indicators and audit conclusions.

Internal Audit
Report directly to the A&RC. The internal audit plan is agreed annually, with input and oversight from the Group Head of Risk and CFO.

Their audits are financial and risk-based, and aligned with the Group Risk Register, providing assurance and recommendations on the suitability of and compliance with Group policies and procedures across risk management, governance, and internal control processes.

External financial audit
Report directly to the A&RC. PwC provide independent assurance over the Group's financial statements to ensure they are presented fairly in all material respects and have been prepared in accordance with the relevant standards and regulations.

Other external parties
Report to Senior Executives. As part of our risk management process on a day-to-day basis, a number of external parties perform audits. This includes BRCGS unannounced and announced audits of food safety across our UK sites and other subject matter experts across insurance, property, health and safety and cyber.

The business takes a measured approach to investment to minimise risk exposure. Whilst over recent years significant capital investment has been made in the US and China, these are markets which Bakkavor has operated within for many years, and we believe that they represent exciting opportunities for future growth. There is a trade-off between risk and reward in making strategic investment decisions, however we believe the Company is well placed to take advantage of available opportunities and maximise risk-adjusted return, whilst minimising the exposure.

All material strategic investment decisions are reviewed and assessed by the Management Board and the Group Board. These decisions are supported by detailed analysis and documentation, as well as expert input as required to ensure that the risks associated with each opportunity and its execution plan are well-understood and accepted.

Risk assurance

Risk assurance is delivered using the 'four lines of defence', which comprises; (1) operational management are responsible for direct assurance at the business level including monitoring of management controls, key performance indicators and self-assessment; (2) central functional teams undertake the development of policies and procedures, training and auditing the operational teams; and their work is supplemented by independent audits performed by food safety and health and safety subject matter experts including announced and unannounced customer audits, BRCGS food safety audits, insurance audits and professional property advisers; (3) internal audits on key risks (outsourced to KPMG); and (4) external financial audits, performed by our External Auditors PwC.

Internal control system

The internal control system provides the structure and an ongoing process for risk management. This helps provide reasonable assurance to Senior Executives and operational management that processes have been implemented effectively to manage risk in our operations. It should be noted that the system is designed to manage rather than eliminate all risks. This is combined with a central governance framework which supports the business through Group-wide policies, procedures and training provided by our central functions, including technical, finance, human resources, risk, information systems, legal and procurement. Operational management are responsible for implementing procedures and monitoring of controls with key risk indicators. We obtain independent assurance over the effectiveness of the internal controls through the performance of audits by the internal audit team.

Examples of the Bakkavor internal control system include:

- **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 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.
- **COVID-19** – Our technical and operational teams introduced new procedures and controls at each of our sites in response to the COVID-19 pandemic to help ensure the health and safety of our colleagues, whilst continuing to operate as an important supplier of fresh prepared food to our grocery retail and foodservice customers.
- **IT systems** – Bakkavor has an IT risk and security development programme in place and during the year has made further investment in its cyber defences, including the addition of multifactorial security and the segmentation of our UK local area networks.
- **Treasury** – The Group has a Treasury Policy in place, the main objectives of which are to ensure that appropriate capital resources are available for the maintenance and development of the Group's businesses, and that the financial risk relating to the Group's currency, interest rate and counterparty credit exposure is understood, measured, and managed appropriately.
- **Financial reporting** – The Group has a robust Business Control Environment Policy in place which covers key financial controls which apply to all business units. Financial reporting is reviewed by finance teams at business unit, sector, region and Group level.

RISK MANAGEMENT AND RISKS
CONTINUED

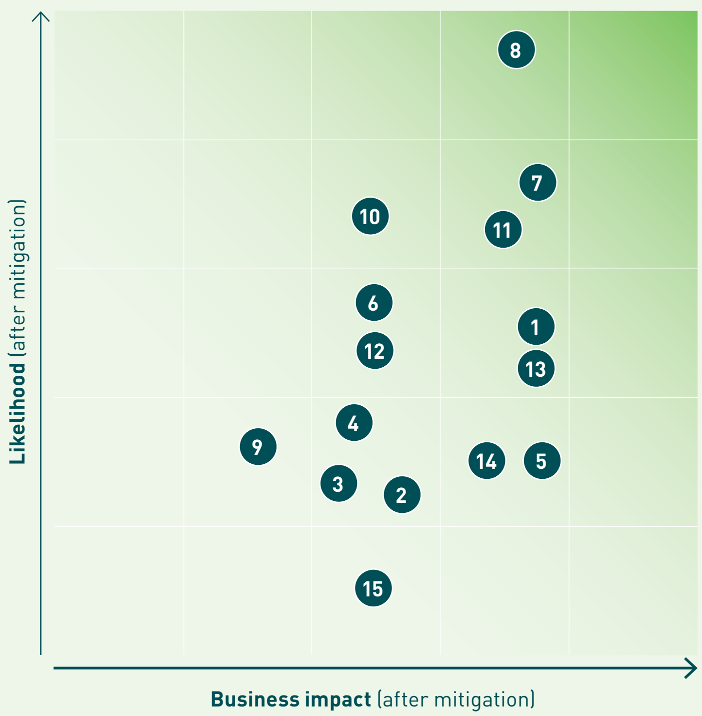
2021 business context
The Group delivered a strong performance in 2021 despite facing a number of challenges. Whilst the year started with the acute effects of the government imposed restrictions due to the COVID-19 pandemic, these lessened through the period leading to an improvement in consumer confidence and a strong rebound in consumer demand for freshly prepared food. The ever evolving risk profile with respective to the COVID-19 pandemic led to changes in health and safety guidance and our ways of working. In the second half of the year, we, along with the wider industry, have faced unprecedented challenges across the supply chain and in the availability of labour, with the consequential impact of significant inflationary headwinds and a level of operational disruption. 2021 was also a year in which tackling climate change has become a key priority for governments and businesses globally and is an increasing area of focus for our business.

These developments have had an impact on the overall risk profile of the Group, and through our full-year 2021 risk assessment process have resulted in:

- The modification of three of our principal risks descriptions;
- An increase in the risk profile of three principal risks;
- A decrease in four principal risks. The outcome of the principal risk assessment and year-on-year movements are summarised in the risk assessment map.

For further detail of the risk description, drivers, mitigations, and developments in 2021 refer to pages 78 to 86 for detail of the principal risks and uncertainties.

RISK ASSESSMENT MAP



Principal risks 2021	Risk trend
1. Consumer behaviour and demand	↓
2. Competitors	–
3. Strategic growth and change programmes	–
4. Reliance on a small no. of key customers	–
5. Food safety and integrity	–
6. Health and safety	↓
7. Supply chain	↑
8. Availability, recruitment and retention of colleagues	↑
9. Brexit disruption	↓
10. COVID-19 pandemic	↓
11. IT systems and cyber risk	↑
12. Climate change and sustainability	–
13. Disruption to Group operations	–
14. Treasury and pensions	–
15. Legal and regulatory	–

See principal risks and uncertainties on **pages 78 to 86**

Changes to our principal risks

The developments through the year have impacted on the overall risk profile of the Group, and through our 2021 risk assessment process have resulted in the modification of three of our principal risks to reflect this, as follows:

'Supply chain' replaces 'Raw material and input cost inflation'

In 2020 our principal risk focused on the risk of fluctuations in the price and availability of raw materials, packaging materials and freight. However, the well-documented industry-wide supply chain challenges through full-year 2021 that have resulted from the medium-term effects of COVID-19 and Brexit have driven significant inflation and volatility in the supply of raw materials, packaging, energy and logistics services. Therefore, our risk assessment has sought to evolve this principal risk to encompass the supply chain risk more broadly, reflecting both supply chain disruption and inflation.

'Availability, recruitment and retention of colleagues' replaces two separate risks 'Labour availability and cost' and 'Recruitment and retention of key employees'

Through 2021, the impact of the COVID-19 pandemic combined with the effects of Brexit have heightened the risks the Group is facing in relation to our colleagues. As COVID-19 related government restrictions have eased there has been an increased demand for labour, and this is heightening our labour availability risk. This is also resulting in inflationary pressure on pay in order to retain and attract talent.

Further to this, to support the high level of growth in our international markets, we are having to step up our recruitment efforts in the US and China. Therefore, our updated 2021 principal risk seeks to combine all three aspects of our talent management: availability, recruitment and retention.

In addition, the success of our business is underpinned by the combined efforts of all c,19,000 colleagues across the Group, and we have sought to acknowledge this in the evolution of our people related risks this year, recognising that all colleagues are 'key'.

'Climate change and sustainability' replaces 'Sustainability'

In 2020 our principal risk recognised the need to ensure our business is developing in a sustainable way. We have evolved this risk to reflect the increasing importance of climate change risk to the Group. Through 2021, we have developed our understanding of the Group's risk and exposure to climate change by performing detailed analysis with the support of an external adviser.

Overall, in the short term, our risk assessment indicates the impact is relatively low but with time this increases both in terms of transition and physical risks. This will also be impacted by the success of actions by governments and organisations across the world. Full detail of this is included in the Task Force on Climate-related Financial Disclosures section of this report on pages 54 to 61.

RISK MANAGEMENT AND RISKS CONTINUED

PRINCIPAL RISKS AND UNCERTAINTIES

Link to the strategic elements of our Group Strategy

1 UK: Drive returns by leveraging our UK #1 market position

2 International: Accelerate profitable growth in US and China

3 Excellence: Deliver superior performance through operational excellence

4 Trust: Be a trusted partner for our colleagues, customers, suppliers and wider communities

Key to risk level

The risk has increased year-on-year

The risk has decreased year-on-year

The risk has stayed the same year-on-year

Consumer behaviour and demand

This risk has decreased year-on-year due to the strong rebound in demand for fresh prepared food and shopping habits having returned to trends experienced prior to COVID-19 related government restrictions in the UK. In the US, structural demand for our products remains strong and whilst in China consumers remain excited about freshly prepared food, consumer caution remains on when to return to foodservice outlets due to continued local lockdowns in the region.

Link to Group Strategy: 1 2 4

Description of risk	Mitigations	Developments in 2021
Changes in consumer demand and food consumption may impact the Group. This could be driven by a significant change to the economy as well as changes in consumer attitudes, for instance, sustainability and health.	The Group works closely with its customers to adapt to changing consumer trends such as dietary changes, sustainability concerns and the impact of COVID-19 on shopping habits and to ensure regulatory requirements are met. We leverage our deep consumer insight, gathered from market data analysis, consumer surveys and feedback and industry reports, to help inform our new and existing product development pipeline to ensure we meet our customers', and ultimately end consumers', needs. This is supported by our well-established global supply chain that provides us with access to a wide range of ingredients that can be used to drive innovation in our ranges, and our responsible sourcing approach provides us with comfort over the integrity of our supply chain and the quality of our raw materials.	In 2021 we launched over 950 new products across our customers, including plant-based products, re-developed healthier products with lower fat, sugar and salt levels and relaunched an entire salads range for one of our strategic customers. We have become increasingly focused on reducing the use of plastic in our product packaging, driven by our internal Packaging Forum, and have continued to make progress on our 'remove and replace' plastic strategy. We continue to monitor the impact of the COVID-19 pandemic on consumer behaviour and demand for our products, such as the evolution of flexible working, and are developing our products to best meet these changing consumer needs.

Competitors

The risk has stayed the same year-on-year.

Link to Group Strategy: 1 2 3

Description of risk	Mitigations	Developments in 2021
The Group operates in highly competitive markets. Increased price competition, development of new products, operational and technical developments, and/or other competitive advantages in our competitors and/or competitors of our customers could adversely impact the Group. This could result in loss of market share of our own business and/or our key customers.	The Group has well-established, close relationships with its key customers, underpinned by deep market and consumer insight, strong innovation capabilities, multi-level relationships, high-quality products and category expertise, strong reputation for food safety and health and safety, strong service levels and overall scale. We monitor customer performance and trends on a regular basis and have joint business plans in place. The Group remains focused on driving operational efficiency and streamlining the cost base to ensure it remains competitive, as well as implementing operational excellence initiatives to advance our operational and technical capability.	We have continued to partner with our customers and worked openly and collaboratively through the challenges in the year. We have delivered on a strong pipeline of innovation, with over 950 products launched in 2021. We have continued to roll-out a new factory reporting system that provides standardised operational KPIs and supports driving further improvement, as well as helping us to target future investments to maximise returns.

Strategic growth and change programmes

The risk has stayed the same year-on-year.

Link to Group Strategy

1 2 3 4

Description of risk	Mitigations	Developments in 2021
The delivery of the Group's strategy will require significant investment of capital and resource, and organisational change. This includes new factory builds, investment in new capacity and/or capability and acquisition opportunities across all three markets. Such investments are made based on forecast financial returns, which are by their nature uncertain. There is also a level of execution risk with any significant capital project, widespread organisational change, or acquisition. Future investments will need to take account of climate change in terms of acute risks such as flood risk and chronic climate hazard such as sea level risk, heat stress (requiring greater cooling in our factories), drought and changing trends in consumer demand.	The Group's Capital Allocation Policy drives the balance of spend across capital expenditure, inorganic opportunities, debt reduction and dividends, to support the delivery of the Group's strategic objectives, which the Group Board and Management Board are heavily engaged in. We have robust and standardised processes in place for the evaluation and approval of capital expenditure, outlined in our Capital Expenditure Policy. All significant capital investments, organisational change and acquisition opportunities are subject to review and approval by Senior Executives, the Management Board and the Group Board, with consideration given to the balance of opportunity, resource and risk profile of each proposal. Performance of significant projects is tracked against projected metrics on a timely basis and reported to the Management Board and Group Board.	The investment to integrate all HR systems into one platform, SuccessFactors, has continued to progress well through the year. SuccessFactors will bring standardised and streamlined HR processes across the business and allow colleagues easy mobile access to the information they need. This will also help support our colleagues' recruitment and retention and improve efficiency within the function. The system is due to go live in the first quarter of 2022. In the UK, the continued roll-out of a new automated smart manufacturing system across our UK sites has progressed well, supporting further improvement in operational efficiency and helping to mitigate inflationary pressures. The system is now live in 16 sites and the remaining seven sites are due to go live in 2022. In the US, to support the national roll-out of ready meals with an existing customer, we have invested in our ready meals capacity in both our Carson and Charlotte sites, which has gone smoothly and completed in the fourth quarter of 2021. In China, our new replacement site in Wuhan went live in March 2021, with a very smooth transfer of production and minimal disruption to customer service. Our Xi'an replacement site works were delayed by government limitations on construction in the region, however, building works were completed in November 2021, with production expected to be transferred in spring 2022.

Reliance on a small number of key customers

The risk has stayed the same year-on-year.

Link to Group Strategy

1 2 3 4

Description of risk	Mitigations	Developments in 2021
We work with a select number of customers in each of the markets that we operate in. In the UK, c.85% of our like-for-like revenue is with four of the largest grocery retailers, Tesco, M&S, Sainsbury's and Waitrose, with the balance across other grocery retailers. In the US, 86% of our like-for-like revenue is from five grocery retail and online customers and in China, 62% of like-for-like revenue is from three large scale western foodservice customers. As a result, the loss of any of these customers, significant changes in commercial terms or reputational damage could result in a significant impact on the Group's results.	The Group has well-established, close relationships with its key customers, underpinned by deep market and consumer insight, strong innovation capabilities, multi-level relationships, high-quality products and category expertise, strong reputation for food safety and health and safety, and overall scale. We operate a strategic partnership model and focus our resource on our four largest customers in the UK, with customer dedicated teams to support and manage the relationships. The Group invests significant resources behind maintaining its customer relationships to drive value and minimise risk.	We have continued to strengthen our key customer relationships through 2021, supporting them in what has been a challenging period. We have delivered on a strong pipeline of innovation in the year, with over 950 products launched across the Group. In the UK, we have embedded the commercial and development restructure that took place in 2020, to better leverage our operational and customer matrix structure. This has enabled us to retain our customer focus, whilst developing an increased category focus, driving efficiencies and increasing returns. In the US, we have built on our existing relationships, expanded our product ranges and increased penetration, as well as securing the national supply of a range of ready meals to one of our strategic customers. In China, we have continued to make progress in entering new channels, delivering strong sales growth with grocery retail and office catering customers, thereby supporting the diversification of our customer base to reduce reliance on our key foodservice customers.

RISK MANAGEMENT AND RISKS CONTINUED

Food safety and integrity

The risk has stayed the same year-on-year.

Link to Group Strategy
1 2 3 4

Description of risk	Mitigations	Developments in 2021
We produce a significant volume of food that is consumed by millions of people every day. It is our duty to make food that is both safe, and clearly and correctly labelled. There are risks that products may be contaminated either accidentally or deliberately in the supply chain. The effect of this could be to compromise the safety of our products for consumers, adversely affect consumer confidence and potentially breach the trust of our customers. It may also lead to product withdrawal or recall, resulting in financial and/or reputational impact on the Group and potential loss or reduction in business.	Industry leading standards of food safety, including traceability procedures and processes, are maintained across the Group and this is overseen by our strong central technical function. We use Hazard Analysis Control Point principles at all our sites to identify and control food safety risks, and colleagues are trained in these procedures. Each site has a team of technical/food safety experts who report and monitor performance against a number of food safety metrics and measures, and these are reported to the Management Board and Group Board on a monthly basis, which includes explanations of variances and detail of any significant issues. To ensure compliance, our sites are subject to regular audits against recognised global food safety standards by our internal central technical team, customers, and independent bodies on both an announced and unannounced basis. We continue to monitor any emerging issues to ensure we meet increasing compliance requirements. The Group also operates robust risk assessment and management processes across its supply chain. This includes audits of both new and existing suppliers, stringent supplier approval processes, and setting clear expectations through our Supplier Code of Conduct. Suppliers are required to demonstrate compliance with the Supplier Code of Conduct through self-assessment questionnaires and we seek corrective actions if required.	In 2021, 116 Internal Audits and 61 External Audits were carried out at our sites, and 154 audits were carried out on Group suppliers and growers. Further, allergen management plans have been revised and training workshops held across the UK sites, which commenced in July 2021 to aid implementation. There is an ongoing project with equipment providers to drive operational and functional improvements in labelling controls, including upgrading the system to the latest version of Windows to future proof the system and help accelerate system set up at the start of production runs. During the year, all of our direct suppliers to the UK business were evaluated on environmental, ethical and integrity issues and we continue to engage directly to support suppliers in aligning their performance to our requirements as set out in our Supplier Code of Conduct. In 2021 a small number were engaged with directly due to insufficient evidence of compliance with the Supplier Code of Conduct. We agreed action plans with them and by the end of the year all suppliers met the requirements.

Health and safety

This risk has decreased year-on-year due to a reduction in levels of the COVID-19 virus in the population due to the vaccine roll-out and the success of our ongoing COVID-19 controls leading to lower levels of colleague absenteeism and health concerns.

Link to Group Strategy
1 2 4

Description of risk	Mitigations	Developments in 2021
We recognise our duty of care to secure and protect the health and safety of our colleagues, contractors and visitors. Failure to maintain appropriate health and safety across the Group could result in significant reputational, regulatory and/or financial impact to our business.	The Group has well-established, strong health and safety processes and controls in place across all sites, and this is supported by an established culture of engagement around accident prevention across the Group. Health and safety is managed locally by colleagues at sites, supported by the Group's in-house health and safety experts who review and share standards and best practice, support implementation of new processes and controls, and monitor health and safety performance metrics on a regular basis. Each site reports and monitors performance against a number of health and safety metrics and measures, and these are reported to the Management Board and Group Board on a monthly basis, with detail of any significant issues reported immediately.	We have continued to adapt our COVID-19 related controls and processes to reflect the latest regulations, guidance and risk profile at each of our sites across our three regions. We have reduced the total number of accidents in the UK (per 100k employees) by 4.8%, however, we saw a 1.2% increase in accident frequency with >7 days lost time and our major accident rate increased by 16% compared to 2020. Despite this, we remain well below industry averages. Our focus on reducing slips and trips in 2021 has seen the introduction of standardised wellingtons across our UK sites, providing a boot that offers slip resistance, comfort, chemical resistance and foot protection. Health and safety concerns are dealt with effectively and actions are fed back reflecting the strong culture and focus on health and safety across the business. In China, since February, we have implemented the Environment, Health and Safety ("EHS") business meeting (training) system for our mainland factories. To date 10 meetings have been held to share and exchange information on the four key areas: the use of ascending ladders, limited space for traffic safety, fire protection and evacuation and warehouse safety.

Supply chain

The risk has increased year-on-year due to the combined impact of the COVID-19 pandemic and the implementation of the Brexit withdrawal agreement, resulting in disruption to the supply chain and shortages in certain raw materials.

Link to Group Strategy

1 3 4

Description of risk

The Group's cost base and margin can be vulnerable to fluctuations in the price and availability of raw materials, packaging materials, energy and freight.

The loss and/or interruption in supply from a major supplier could impact the Group through disruption in our factory operations and may result in an impact on customer service levels.

Failure to supply required volumes and deliver acceptable customer service levels could limit revenue growth and increases the risk of adversely impacting customer relationships.

Climate change will expose suppliers to acute and chronic risks which we will need to understand when allocating supply programmes and developing our supply base.

Mitigations

In combination with our strong supplier relationships and our robust approach to supplier selection and monitoring, and management processes, the Group is highly experienced in maintaining a sophisticated supply chain in an agile manner. Our centralised procurement team includes commodity focused specialists and 'on the ground' presence in China, Spain, Italy, United States of America and South America. They are focused on achieving the right balance between price, quality, availability, and service levels, and manage a robust demand and supply forecast. We make limited use of forwarding agents ensuring our direct management of any disruption to product availability and/or transport.

Agreements with customers are made, where possible, to account for forward purchasing and price variations. The Group has several raw materials cost pass-through mechanisms in place with its customers, which allow us to recover the impact of increased costs due to changes in raw material prices. We also remain focused on driving productivity improvements across our sites, which helps to mitigate and offset the impact on margin of any increases in input cost prices.

For our UK business we source our raw materials from the UK wherever possible (2021: 57%). Through the year, we switch suppliers to match seasonable availability, particularly in the spring and summer when UK crops are more readily available, and also aim to dual-source where possible to reduce reliance on a single supplier.

Developments in 2021

In 2021, the impact of Brexit trade negotiations, coupled with the continuing impact of COVID-19, on the demand profile and availability of raw materials and HGV drivers across the supply chain, has driven inflationary pressure across all three regions which has intensified through the second half of the year.

We have been relatively unaffected by the disruption to distribution across the industry to date, and we have continued to work collaboratively with our customers who manage outbound distribution from our sites to stores. Our raw material pricing models have remained effective and we have been successful in increasing customer prices starting from the fourth quarter in 2021 through to early 2022.

Our procurement, commercial and operational teams have worked jointly on de-risking projects to help avoid or offset cost inflation and disruption both in the manufacture of existing products and to help inform new product development.

Initiatives have included a review of sourcing plans (e.g. country of origin or a different supplier), identifying options for substituting materials by changing product specifications and the forward purchase of certain input costs (e.g. electricity).

Our drive for operational efficiency improvements to help offset inflationary pressures continued. The roll-out of a new factory management system is on track and in 16 UK sites, we have made progress in improving energy efficiency as we installed LED lighting and continued to replace F-gas, and we have increased our investment in colleague training.

Developments in 2022: At the time of writing, the conflict in Ukraine is not causing a direct impact to our supply chain as we do not have significant exposure to the region. There are potential knock on impacts which may cause certain European commodities (e.g. wheat) and energy markets to strengthen. We have forward contracts in place which provides us with security of supply for up to 12 months.

RISK MANAGEMENT AND RISKS CONTINUED

Availability, recruitment, and retention of colleagues

The risk has increased year-on-year due to the impact of the change in government restrictions due to the COVID-19 pandemic in all three regions. This resulted in labour shortages and inflationary pressure, and has been exacerbated in the UK by the impact of the Brexit withdrawal agreement.

Link to Group Strategy

1 2 3 4

Description of risk

Being able to attract, recruit and retain talented and committed colleagues, who understand and respect our values, is critical to ensuring the Group can successfully deliver on its strategic growth objectives.

There is a risk that labour availability and cost will be affected by political, economic, legislative and regulatory developments and this could have an adverse impact on the Group. In addition, increasing competition from other similar businesses and/or local employers could also reduce the availability of labour and increase cost pressure.

Mitigations

The Group has strong recruitment processes in place, which it continually reviews and seeks to improve to reflect the latest market developments. This is managed by our central talent team and supported by regional Heads of HR. Our recruitment efforts are tailored to the local region and area, with specific campaigns and focus groups in place. We seek to offer competitive remuneration and benefits packages and we are committed to investing in training and development to upskill our colleagues, provide opportunities for promotion, and seek to enhance and upgrade site facilities to make Bakkavor a better place to work. Our salaried colleagues are incentivised to drive a reduction in employee turnover, with one of the two short-term bonus plan criteria based on a reduction in UK employee turnover, and this has been in place since 2018. We conduct an annual performance appraisal process for all salaried colleagues and also perform an Employee Engagement Survey every 18 months. Where we have temporary vacancies, we seek to fill them wherever possible through direct recruitment, but we also use agency labour providers in some instances, and this provides us with a short-term solution to managing our labour and manpower planning.

The Nomination and ESG Committee ensures plans are in place for orderly succession to the Group Board, Management Board and Senior Executive positions and oversees the development of a diverse pipeline for succession.

We continue to drive operational efficiency to help manage and mitigate the impact of an increase in the cost of labour.

For detail of our approach to responsible recruitment and employment, including modern slavery, refer to the Trusted Partner section on pages 34 to 53.

Developments in 2021

Whilst we experienced a fall in employee turnover during the periods of restriction due to the COVID-19 pandemic at the start of the year, the availability and turnover of colleagues across our business have become increasingly challenging. This is driven by demand returning rapidly following the easing of COVID-19 related government restrictions and changes in immigration law, following the UK's exit from the European Union, coming into effect.

Further, as the recruitment and retention of employees has become increasingly difficult at all levels, this has resulted in inflationary pressure as employers seek to adjust their compensation to attract and retain colleagues.

We deployed several initiatives to support the recruitment and retention of our colleagues, which included increased flexibility in shift patterns, part time work and working from home; implemented out of cycle pay rate increases following detailed benchmarking; referral bonus schemes; and provided free transport to several UK sites to support accessibility from local urban areas. We have sought to mitigate the increase in labour costs through customer pricing; specifically, in the UK our customers have supported the wage rates increases implemented in December 2021, and in the US and China we incorporated labour costs into our overall customer pricing discussions.

In response to feedback from the most recent EES, we have refreshed our values and ensured they reflect where we are today and in the future, and this provides an umbrella under which our offer sits. We have also increased our investment in training and development, have been recognised for our industry leading graduate and apprenticeship programmes and have bolstered our wellbeing support. Refer to further detail in the Trusted Partner section on pages 34 to 53.

Brexit disruption

This risk has decreased year-on-year as the Brexit related changes to come that may impact our business are largely administrative, and with our experience and mitigations we are well placed to manage these.

Link to Group Strategy

1

Description of risk

The UK's departure from the EU and its associated regulatory changes creates uncertainty, and a failure to prepare could result in disruption to Group operations and impact our ability to supply customers.

Specifically, there continues to be uncertainty over potential disruption at ports of entry when final import regulations are fully introduced and trade with Northern Ireland is also at risk of disruption when export protocols are finalised. In addition, the introduction of duty payable on the import and export of products could increase costs and result in products being de-listed.

Mitigations

The Group has a longstanding Brexit Working Group in place, supported by dedicated internal resource as required, which ensures Brexit risks and issues are identified, and mitigations are regularly reviewed, including organisational changes, systems development, customer plans, stock levels and employee retention. Regular updates on Brexit risks and issues are provided to the Group Board and Audit and Risk Committee.

Our Bakkavor Inbound Logistics ("BIL") team, based in Southern Spain and Lincolnshire, took responsibility for all imports to the UK business from the EU and the rest of the world at the end of the transition period. Their strong direct relationships with suppliers and hauliers, combined with years of experience, mean we are well-placed to manage and mitigate the impact of any disruption.

Bakkavor has Authorised Economic Operator ("AEO") status in the UK, demonstrating our professional standards of customs clearance administration. For exports to Northern Ireland, we are registered under the UK Trader Scheme so that no duty is payable on imports to Northern Ireland, and we utilise the STAMNI attestation arrangements to avoid the need to complete EHC on all products containing products of animal origin ("POAO"). To support exports to the Republic of Ireland, we are a member of the Groupage export facilitation scheme, enabling us to group multiple products of the same type under a single EHC if required.

We purchase forward currency contracts to mitigate the extent that Brexit developments cause volatility and weakening in Sterling-Euro exchange rates. We also look to source our raw materials from the UK wherever possible, thereby reducing exchange rate exposure and also mitigating the impact of potential disruption at ports of entry.

Refer to further detail of people mitigations and developments in the 'Availability, recruitment and retention of colleagues' principal risk.

Developments in 2021

Following extensive preparation and planning, disruption caused by Brexit has been limited. Continued investment in our colleagues, processes and procedures, as well as continuing to engage extensively with our customers and suppliers, resulted in minimal disruption to both inbound and outbound supply chains.

BIL and our central procurement team have engaged with over 200 suppliers around the changes to importing goods to the UK, resulting in changes to contracting terms. We have centralised customs declarations through one team, supported by the recruitment of additional colleagues whom we trained as customs agents, and trained all UK sites on customs procedures for receipting goods. We have also implemented software to interface the BIL Enterprise Resource Planning ("ERP") system directly with HMRC's systems. All import clearances are now completed in-house, managing imports from 21 countries. Further, we have established an additional consolidation warehouse in Northern Italy, enabling us to consolidate our EU supplies into trucks and reduce potential customs and EHC errors or delays.

From an outbound perspective, we have developed a software application that captures product and supply chain details to generate the required export documentation required to export goods to our customers in Ireland. At the beginning of 2021, new border control arrangements in the Republic of Ireland did result in some short-term delays but the impact was limited, and with the support of our customers, we have rationalised several product ranges to simplify the export arrangements.

We launched an engagement drive to inform and support our EU national colleagues across our UK sites in claiming their right to settled status in the UK ahead of the 30 June 2021 deadline.

The Group remains focused on the further administrative changes to come, preparing for the introduction of EU export health certificates and import of Products, Animals, Food & Feed System ("IPAFFS") submissions from July 2022.

RISK MANAGEMENT AND RISKS CONTINUED

COVID-19 pandemic

This risk has decreased year-on-year due to the easing of COVID-19 related government restrictions, as case numbers and the risk profile of the virus have reduced, thereby lowering absenteeism and health risk to our colleagues. Restrictions easing has also supported the strong return in consumer demand for FPF products.

Link to Group Strategy
1 2 3 4

Description of risk

The COVID-19 pandemic has resulted in widespread and unprecedented challenges globally. Whilst the roll-out of vaccines has progressed during 2021 in the UK, US and China, there remains the risk of new variants causing disruption to the markets we operate in and our own operations. The presence of COVID-19 in our communities has affected health, and consequentially impacts labour availability and absenteeism. Government restrictions and guidance restricting the movement of people, ways of working and social activities have a negative impact on the demand for fresh prepared food and continuation of such measures could adversely affect our financial results. Overall, the Group's financial results may be adversely affected if we do not adapt to the changes.

Mitigations

The health and safety of our colleagues remains a priority for the Group. A number of COVID-19 controls were introduced in 2020, including restricted visitor access, suspending all travel unless deemed business critical, a more rigorous return to work procedure, more frequent cleaning regimes at touchpoints, additional handwashing protocols, adhering to the UK Health Security Agency guidelines for social distancing in our offices, restrooms, changing and ancillary areas, thermal imaging for temperature checks, safety screens for factory workers on the line, as well as following specific HSA guidance for distancing in food manufacturing businesses. The Group Board monitors events closely and evaluates the impact and approves proposed responses by the Management Board and Senior Executives.

The Group monitors its financial performance, capital requirements, cash resources and debt facilities on a regular basis.

Developments in 2021

We have continued to adapt and evolve the controls and processes implemented in 2020 at the height of the pandemic, to reflect relevant government regulations and industry guidance. The measures are reviewed as part of regular audits performed by our central technical team on health and safety, food safety and environmental areas.

For further information on how we have supported our colleagues' physical, emotional and financial wellbeing refer to the Trusted Partner section on pages 34 to 53.

The Group has strengthened its financial position during the year and is confident that the cash generation, combined with liquidity available through the committed debt facilities, is sufficient to support the Group's sustainable growth in the medium term. Refer to the Viability statement on page 87.

IT systems and cyber risk

The risk has increased year-on-year as cyber threats have become more common and increasingly complex during the COVID-19 pandemic.

Link to Group Strategy
1 2

Description of risk

Unauthorised access to the Company's Information Technology ("IT") systems could lead to breaches of data protection and release of market sensitive information, which could have a reputational, financial and operational impact on the Group.

Any breakdown and/or failure in the Group's IT infrastructure and/or the Group's communication networks, including malicious cyber-attacks by third parties, could cause disruption to the business.

Mitigations

The Group takes a risk-based approach to managing cyber security. We actively identify risks and threats, design layers of control and implement controls to mitigate risk. The approach balances controls that prevent attacks, detect events and respond quickly to reduce impact and includes business continuity planning and testing, phishing simulation, extended security detection and response.

We are evaluated independently against leading industry standards published by the US Department of Commerce, namely the National Institute of Standards and Technology ("NIST") Cyber Security Framework, and partner with external expert advisers to actively reduce risks posed. Information risk and security are mitigated through delivery of a security programme. This is managed and recalibrated periodically to ensure investment and business alignment are appropriate.

Developments in 2021

The cyber security threat landscape faced by all organisations has significantly increased in 2021. The Group has continued to invest in enhancing our systems, controls and processes through our security programme, to protect the Group from cyber-attack and mitigate this risk, with increased investment in our international businesses through 2021.

Our security programme has seen maturity enhancement on the following key themes: proactive and robust cyber defence, supply chain security assurance, improving security capability maturity internally and through security partnerships, maintaining rigorous controls and managing enterprise information risks to acceptable levels, core infrastructure and application transformation.

Climate change and sustainability

The risk has stayed the same year-on-year.

Link to Group Strategy

1 2 3 4

Description of risk	Mitigations	Developments in 2021
Climate change is the most significant sustainability challenge globally and has the potential to have a significant impact on the environment in which we operate. Addressing climate change and mitigating the impact has become a key priority for governments, organisations and individuals. There is a risk that the Group may not be able to deliver on its climate change and sustainability commitments, which could have a reputational, financial, legal and or regulatory impact on the business. Climate change will increase the cost of insurance if physical damage to properties becomes more common.	The Group takes its responsibility to build a sustainable business seriously. We work collaboratively on the issues that are most material to the Group and our approach is underpinned by our Trusted Partner strategy. We monitor and report on several non-financial KPIs including net carbon emissions, food waste, packaging use, health and safety. Refer to Trusted Partner section on pages 34 to 53 and Non-financial KPIs on pages 28 to 29.	In 2021 we formalised our commitment to reaching Net Zero across our Group operations by 2040 and are in the process of developing and refining our roadmap to support the delivery of this. We engaged Willis Towers Watson to perform a detailed assessment of the Group's climate change risks. This work concluded that in the short term, climate change presents a relatively low level of risk for the business. With time, however, the financial impact on the business increases as carbon taxes are forecast to increase, the availability of certain raw materials in supply regions that may be affected by climate change may reduce and therefore cause prices to increase, and consumer demand may change. Given the importance of the climate agenda, we report against the recommendations of the TCFD and full details of our climate risk assessment can be found on pages 54 to 61.

Disruption to Group operations

The risk has stayed the same year-on-year.

Link to Group Strategy

1 2 3 4

Description of risk	Mitigations	Developments in 2021
Catastrophic damage to one or several of our sites by fire, flood, mechanical breakdown and/or natural disaster.	Building and property management protocols are employed and audited in conjunction with our property insurers. Regular reporting of progress on recommended site improvements following site visits encourages prompt resolution. Each site has business continuity and disaster recovery plans in place, to ensure identification of key risks, assessment of key controls, improvement actions required and preparedness for an event and detail the procedures to be followed in the event of a range of different disruptions.	Crisis management training has been developed for our UK sites. This was launched in September 2021 and training has commenced for the leadership teams at four of our UK sites so far. We carried out audits, with the support of our insurers and insurance brokers, on nine of our UK sites and two of our China sites. In the US, we completed fire safety investments in conjunction with our US insurer at two sites. We engaged Willis Towers Watson to perform a detailed assessment of the Group's climate risk exposure, both transition and physical risk, and further detail of this can be found in the TCFD section on pages 54 to 61. The physical risk assessment covers all our sites worldwide plus those of our major competitors and is designed to help guide our ongoing investment plans to avoid disruption due to climate change.

RISK MANAGEMENT AND RISKS CONTINUED

Treasury and pensions

The risk has stayed the same year-on-year.

Link to Group Strategy

1 2

Description of risk	Mitigations	Developments in 2021
To achieve our strategic growth objectives, the Group requires a strong financial position. The Group has debt facilities governed by financial agreements, under which the Group is subject to various financial covenants and information undertakings. The Group also has sustainability targets in its core financing agreement. Breaching of a covenant may impact the Group's investment strategy, our ability to maintain existing and secure future financing and/or be subject to further restrictions, and the cost of interest on our debt. By nature of its global operations and supply chain, the Group purchases raw materials, packaging and other indirect supplies in foreign currencies and therefore the Group is exposed to changes in exchange rates, which can have an impact on business results. The Group has a defined benefit pension scheme which closed to future accrual in 2011. The scheme is exposed to movements in interest and inflation rates, values of assets and increased life expectancy for scheme members.	The Treasury function operates within a framework of Group Board approved policies and procedures for financial risk management including risks for funding, liquidity, currency, interest rate and counterparty credit. Our financial results and projections are monitored on a regular basis, through weekly, monthly and quarterly reporting and forecasting. This includes analysis and review of cash flow, liquidity and covenant performance. We maintain a regular dialogue with our financial lenders, updating them on the business performance and latest developments. The Group has a Currency Hedging Committee that meets on a quarterly basis to ensure that the Group complies with its 18-month rolling hedging policy for purchases. The Hedging Committee sets out the target hedging rates for the Treasury function for the following quarter to ensure compliance with the policy is maintained. The pension trustees are updated on the scheme performance and funding position on a quarterly basis. The trustees also review investment manager performance with independent advisers to ensure that target performance levels are being achieved and take appropriate action when required. The defined benefit pension scheme has hedges in place to mitigate a large portion of the exposure to inflation and interest rate movements.	Despite the impact of the COVID-19 pandemic, and latterly the industry-wide supply chain challenges, we have continued to operate with significant liquidity headroom and reduced net debt by £39.7 million, with leverage of 1.9 times now within our medium-term target range. Correspondingly, due to lower average debt levels in the period, interest costs have reduced. This also reflects the Group's voluntary repayment of £37.5 million of its most expensive debt. The Group extended the maturity date of £430 million of its core debt facilities from March 2024 to March 2025. The Group has maintained its 18-month rolling hedging policy for purchases. The pension trustees have made changes to the investments held to ensure that target investment returns are achieved but the overall risk profile is also lowered. This resulted in the surplus in the scheme at the end of 2021, under IAS 19 valuation principles, increasing to £37.2 million from £11.2 million at the end of the prior year.

Legal and regulatory

The risk has stayed the same year-on-year.

Link to Group Strategy

1 2

Description of risk	Mitigations	Developments in 2021
The Group is subject to a wide range of legislation, regulations and codes of practice across the geographies in which we operate. They cover many aspects of our business including food safety, health and safety, data privacy, competition, ethical business, tax, and financial reporting. Failure to comply with local laws or regulations, or breach of internal policies and standards, could impact our reputation, result to financial penalties and cause operational disruption.	Senior Executives monitor relevant laws and regulations to ensure compliance across legal, financial, tax, HR, food safety, health and safety, and environmental matters. Our internal auditors provide assurance on our risk management framework. Key Group policies are reviewed and updated on an annual basis by the Group Legal team. These Group policies contain guidance on our standards and procedures. The Group has an internal e-learning compliance programme in place which seeks to raise awareness of key risk areas for the Group and reinforce know-how and practice within the business, and this is undertaken on an annual basis. This training is supplemented by an additional programme of external legal and governance training for relevant operational parts of the Group.	In 2021, Group Legal launched a refresher e-learning training on anti-bribery and corruption and data protection for all salaried colleagues. Group Legal facilitated additional training workshops for key stakeholders in Commercial, Procurement, Information Security and HR on UK GDPR, intellectual property and employment via our external legal advisers. An I&D Forum was established at the beginning of 2021 to formalise our governance and support the delivery of our objectives in this area. The forum has organised a broad range of Group-wide and site focused events through the year. Group Legal organised ESG governance and oversight know-how and training for the Group Board and Management Board.

VIABILITY STATEMENT

In line with Provision 31 of the 2018 UK Corporate 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 2024.

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 within this three-year time frame. 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 further lockdown restrictions as a result of COVID-19, raw material inflation and higher labour costs due to scarcity of labour. In addition, the high level of inflation across the cost base would need to be recovered through price increases agreed with our customers, which in turn could result in retail price inflation which could then lead to lower sales volumes.

On 18 March 2020, the Group refinanced existing debt facilities of £410 million with £455 million of facilities that mature in March 2024 on similar terms to those in place under the previous financing structure. In February 2021, the maturity of £430 million of these facilities was extended to March 2025 and on 1 March 2022 the maturity was further extended by 12 months to March 2026. In addition, at the end of 2021, the Group had £34 million of other debt facilities that will be repaid on an amortising basis by June 2028.

As part of our 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. A downside scenario that is severe, but plausible, has been modelled taking account of the potential financial impact of the specific risks outlined above, including further COVID-19 restrictions and the potential impact of further raw material inflation and an increase in labour costs and the resultant impact on sales volumes. The downside scenario model showed that even without taking any mitigating actions that would be available to the Group if such a scenario occurred, the Group would not breach the financial covenants in its bank facilities agreement and would have significant liquidity headroom available.

Beyond the three-year timeframe of this viability statement the Group would face transition and physical risks as a result of climate change, as set out on pages 54 to 61. The Group has a relatively low exposure from the transition to a low carbon economy and at this stage we do not expect the transition and physical risks to have a material impact on the business.

Having taken account of the sensitivity analysis and downside scenario modelling 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 2024.

The Group's formal viability statement is set out on page 146.

Our 2021 Strategic Report, from the inside front cover to page 87, has been reviewed and approved by the Board and signed on its behalf by Agust Gudmundsson.

Agust Gudmundsson
Chief Executive Officer
7 March 2022

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GOVERNANCE

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CHAIRMAN'S LETTER ON CORPORATE GOVERNANCE

DEAR FELLOW SHAREHOLDERS

On behalf of the Group Board, I am pleased to present to you our Corporate Governance Report for the year ended 25 December 2021. This report sets out how we have complied with the 2018 UK Corporate Governance Code (the "2018 Code") and our compliance statement is set out on page 91. The 2018 Code was published in July 2018 and applies to Bakkavor with effect from 2020. The full text of the Code is available on the Financial Reporting Council's website, www.frc.org.uk.

CHANGES TO OUR GROUP BOARD

Over the last 12 months we have continued to strengthen the membership of our Group Board, increasing diversity and ensuring we have the right balance of skills, knowledge and experience. I was delighted to welcome Jill Caseberry who joined the Group Board in March 2021 as an Independent Non-executive Director and a member of the Remuneration Committee. Jill's responsibilities further increased in the year, and she was appointed as the Company's designated workforce engagement Non-executive Director and a member of the Nomination and ESG Committee in August. For further information about Jill's engagement with the workforce, please see page 103. I was equally delighted to welcome Sanjeevan Bala in August 2021 as a new Independent Non-executive Director and a member of the Audit and Risk Committee.

OPERATION OF THE GROUP BOARD

We have continued to adopt a hybrid approach to our meetings, with a combination of in-person and online meetings using video conferencing technology, due to ongoing COVID-19 measures that have restricted international travel for certain members of the Group Board. Whilst not a substitute for in-person meetings, this has enabled us to maintain effective governance and focus on the delivery of the Group's strategy. I was, however, very pleased to be able to see everyone in person at our Group Board meeting in November.

During the year, a review of the effectiveness of the Group Board and Committees was undertaken. The evaluation process was internally facilitated by our Company Secretarial team and consisted of a questionnaire that was completed by each of Bakkavor's Group Board and Committee members.

> "The Group Board has continued to focus on consolidating our corporate governance framework to align ourselves with best practice, enabling us to deliver our strategy for the long-term benefit of all our stakeholders.

Simon Burke
Chairman

The evaluation results were discussed at the Group Board and Committee meetings, and next steps were agreed. I am pleased to confirm that the review found that the Group Board and its Committees continue to perform effectively. Further details of this and information on how we progressed the actions from the 2020 external evaluation can be found on page 107 of this report.

GROUP BOARD ACTIVITIES
The Group Board's focus during the year has been on strategically significant matters, including:

OUR BUSINESS PERFORMANCE
In a year of evolving COVID-19 related government restrictions and unprecedented industry-wide challenges across the supply chain and in labour availability, significant decisions and adjustments continued to be made by the Management Board with the oversight and support of the Group Board. The Group Board is extremely proud of our colleagues' continued support, commitment, and determination during what has continued to be a difficult period.

ESG
The Group Board takes its responsibility to build a sustainable business seriously – for our colleagues, customers, investors, suppliers, communities, and all the consumers that choose our food. The expectations of investors and other stakeholders in this area have noticeably increased over the last year. Our ESG section, Trusted Partner, of the Strategic Report on pages 34 to 53 explains in detail the progress the Group has made and the steps it is taking to tackle climate change and sustainability challenges in our business.

Governance structure

GROUP BOARD

Simon Burke
Non-executive Chairman

Agust Gudmundsson
Chief Executive Officer

Ben Waldron
Chief Financial Officer

Mike Edwards
Chief Operating Officer, UK

Denis Hennequin
Senior Independent Non-executive Director

Sanjeevan Bala
Independent Non-executive Director

Umran Beba
Independent Non-executive Director

Jill Caseberry
Independent Non-executive Director

Patrick L. Cook
Non-independent Non-executive Director

Lydur Gudmundsson
Non-independent Non-executive Director

Jane Lodge
Independent Non-executive Director

MANAGEMENT BOARD

Agust Gudmundsson
Chief Executive Officer

Ben Waldron
Chief Financial Officer

Mike Edwards
Chief Operating Officer, UK

Pete Laport
President, Bakkavor USA

Donna-Maria Lee
Chief People Officer

Annabel Tagoe-Bannerman
Group General Counsel and Company Secretary

CHAIRMAN'S LETTER ON CORPORATE GOVERNANCE CONTINUED

During the year, we have strengthened the Group's governance of ESG, and expanded the remit of the Nomination Committee so that it monitors the execution of the Trusted Partner strategy, oversees the communication of the Group's Trusted Partner activities with its stakeholders, and provides input to the Group Board and other Group Board Committees on Trusted Partner matters as required. Subsequently, the title of the Committee was changed to the Nomination and ESG Committee to reflect this change. In addition, Umran Beba has taken on the role of designated Non-executive Director for ESG matters and feeds back to the Group Board meetings on all ESG matters and the oversight of the execution of the Group's Trusted Partner strategy.

I am pleased that this year we have reported in line with the Task Force on Climate-related Financial Disclosures ("TCFD"), which has strengthened our governance as well as our commitment to disclosing our climate-related risks in a more transparent way. Our TCFD section is on pages 54 to 61.

DIVIDEND

The Group Board paid an interim dividend of 2.64 pence per Ordinary share on 15 October 2021 to shareholders registered on the record date at 17 September 2021 and will propose a final dividend of 3.96 pence per Ordinary share at the Company's AGM on 25 May 2022. This will result in a total dividend for the financial year 2021 of 6.60 pence per Ordinary share.

Going forward, the Group Board expects to maintain a progressive dividend policy over the medium term and the interim dividend to comprise approximately 40% of the total annual dividend.

ENGAGING WITH OUR STAKEHOLDERS

The Group Board's focus during the year was to accelerate Bakkavor's pursuance of its strategic priorities, while managing the ongoing uncertainties associated with COVID-19, Brexit, labour availability and raw material inflation.

The Group Board is responsible for leading stakeholder engagement, ensuring that the Company fulfils its obligations to those impacted by the business, in line with Section 172 of the Companies Act 2006, which helps to underpin the good governance which is at the heart of the Group Board's activities. Details of how the Group Board met its obligations in respect of Section 172 during the year, by taking account of shareholder and wider stakeholder interests in its strategic planning and decision-making processes, are set out on pages 66 to 71.

AGM

I am pleased to confirm that this year's meeting will be in person and by webcast, albeit we are keeping arrangements relating to the AGM under review as COVID-19 health guidance evolves. Shareholders will be notified by the Company beforehand of the revised arrangements via its website and by a Company announcement. The Group Board therefore recommends that you check the Company's website regularly and monitor Company announcements for any updates. The Group Board considers the AGM to be an important opportunity to engage with our shareholders.

LOOKING AHEAD

The governance priorities for 2022 include continued stakeholder engagement and oversight of the actions being taken by the Management Board to mitigate the impact to the business of ongoing industry-wide challenges across the supply chain and the tightening of labour availability. We will also be focused on monitoring progress against our sustainability targets.

Simon Burke
Chairman
7 March 2022

CORPORATE GOVERNANCE COMPLIANCE STATEMENT

The Company applied the principles of the 2018 UK Corporate Governance Code (the "2018 Code"). Available from www.frc.org.uk.

Except as outlined below, the Group Board believes that the Company complied with the provisions of the 2018 Code for the period ended 25 December 2021.

PROVISION 11 – GROUP BOARD COMPOSITION

At the beginning of the year, the Company was not compliant with Provision 11 of the 2018 Code, as less than half of the Group Board, excluding the Chair, was made up of Independent Non-executive Directors. As a result, the Group Board lacked the appropriate balance of Executive and Independent Non-executive Directors.

The Company announced on 25 February 2021 the appointment of Jill Caseberry as an additional Independent Non-executive Director and a member of the Remuneration Committee with effect from 1 March 2021. Jill Caseberry was appointed as the Company's designated workforce engagement Non-executive Director and a member of the Nomination and ESG Committee with effect from 13 August 2021.

The Company announced on 6 July 2021 the appointment of Sanjeevan Bala as an additional Independent Non-executive Director and a member of the Audit and Risk Committee with effect from 1 August 2021.

Following these appointments, the Company has achieved the required balance of Executive and Independent Non-executive Directors required under this provision.

PROVISION 17 – NOMINATION AND ESG COMMITTEE COMPOSITION

At the beginning of the year, the Nomination and ESG Committee comprised two Independent Non-executive Directors and one Non-independent Director, while the search for an additional Independent Non-executive Director was being undertaken. The Company announced on 25 February 2021 the appointment of Jill Caseberry as an additional Independent Non-executive Director and Jill was appointed as the Company's designated workforce engagement Non-executive Director and a member of the Nomination and ESG Committee with effect from 13 August 2021. Since the appointment, the Company has been compliant with this provision.

PROVISION 24 – AUDIT AND RISK COMMITTEE COMPOSITION

At the beginning of the year, the Audit and Risk Committee comprised two Independent Non-executive Directors, while the search for an additional Independent Non-executive Director was being undertaken. The Company announced on 6 July 2021 the appointment of Sanjeevan Bala as an additional Independent Non-executive Director and a member of the Audit and Risk Committee with effect from 1 August 2021. Since the appointment, the Company has been compliant with this provision.

PROVISION 32 – REMUNERATION COMMITTEE COMPOSITION

At the beginning of the year, the Remuneration Committee comprised two Independent Non-executive Directors. The Company announced on 25 February 2021 the appointment of Jill Caseberry as an additional Independent Non-executive Director and a member of the Remuneration Committee with effect from 1 March 2021. Since the appointment, the Company has been compliant with this provision.

PROVISION 38 – PENSION CONTRIBUTION RATES

The Remuneration Committee gave detailed consideration to the provisions of the 2018 Code in respect of the alignment of pension contribution rates for Executive Directors with those available to the workforce. As set out in Provision 38 of the Code, the pension contribution rates for Executive Directors should be aligned with those of the workforce. The CEO and CFO's pension contribution rates are workforce aligned, and while the COO's pension remains higher temporarily, the Directors' Remuneration Policy which was approved by 99.72% of shareholders at the 2020 AGM has provided a firm commitment that the COO's pension contribution will reduce to the workforce rate by the end of 2023 (being 12 months later than guidance given by some UK institutional shareholders). As set out in detail in last year's Annual Report and Accounts, the extension of the COO's higher pension contribution achieves workforce pension alignment within a reasonable period of time and ensured the COO's fixed pay was not reduced upon being promoted to the Group Board.

The CEO's pension contribution has been reduced from 15% of salary to 3% of salary from 1 February 2021 and well in advance of current guidance to reduce by the end of 2022.

PROVISION 41 – WORKFORCE ENGAGEMENT ON ALIGNMENT OF EXECUTIVE REMUNERATION AND WIDER COMPANY PAY POLICY

The Remuneration Committee has considered the new provisions in the 2018 Code with regards to consulting with colleagues. The designated workforce engagement Non-executive Director, Jill Caseberry, had two sessions with Bakkavor's GEF to talk to members and ensure that the 'colleague voice' is heard in the boardroom. The first session in July 2021 was an introduction to Jill Caseberry and to explain her role as designated workforce engagement Non-executive Director which was conducted via video conference. The second session, postponed from late 2021 (due to COVID-19 restrictions) until February 2022 in order to take place face to face, was focused on the alignment of Executive remuneration with the wider company pay policy. Other topics covered at the session included an overview of corporate governance; the role of the Remuneration Committee; getting senior reward right; how Executive remuneration packages work; and a 'Q&A' session. It was well received by our colleagues and was considered to be an engaging, informative and successful session.

The Remuneration Committee, therefore, did not engage with the workforce in 2021 in relation to the alignment of Executive remuneration with the wider Company pay policy (though now covered in February 2022). It was therefore not compliant with Provision 41 in 2021.

Our compliance with key areas of the Code is summarised overleaf.

CORPORATE GOVERNANCE COMPLIANCE STATEMENT CONTINUED

Governance summary

Independence: The Chairman was considered independent on his appointment. More information about the Group Board is found on pages 94 to 96.

Accountability and election: There is a clear separation of duties between the Chairman and CEO roles. All the Directors seek election by shareholders at the first AGM after their appointment and annual re-election by shareholders thereafter.

Senior Independent Director: Our Senior Independent Director, Denis Hennequin, provides a communication channel between the Chairman and the Non-executive Directors.

Evaluation: An internally facilitated performance evaluation of the Group Board and its Committees was undertaken during the year in accordance with the requirements of the 2018 Code, details of which can be found on page 107.

Attendance: The Directors have attended all Group Board and Committee meetings, details of which are available on page 106.

Skills and experience: The Group Board and its Committees are considered to have an appropriate combination of skills, experience and knowledge to direct the Company.

Independent Auditors: PricewaterhouseCoopers LLP ("PwC") were appointed as External Auditors in 2019 following a thorough tender process.

Non-Audit Services Policy: Details on the Non-Audit Services Policy are provided within this report on page 117.

Internal Audit: Details of the Internal Audit function, as undertaken by KPMG, are provided within this report on page 118.

Performance-related pay: Our reward framework is simple, transparent, and designed to support and drive our business strategy, details of which can be found on page 129.

Workforce engagement: Details on how Bakkavor engages with the workforce and its key stakeholder groups are presented on pages 66 to 71 and page 103.

Diversity: Information about Bakkavor's Inclusion and Diversity Policy, Group Board diversity and consideration of diversity in succession plans can be found on page 47 and pages 110 to 111.

Our governance framework

THE GROUP BOARD – Chaired by Simon Burke

Collectively responsible for promoting the long-term sustainable success of the Group. Its role is to lead and direct the Group by setting the purpose and strategy of the Group, overseeing management, and monitoring and assessing culture. Its focus is to ensure the long-term sustainability of the business, for the benefit of colleagues, customers, suppliers, investors, and communities.

GROUP BOARD COMMITTEES

Assist the Group Board in the fulfilment of its duties and responsibilities. Each Committee is responsible for reviewing and overseeing activities within its Terms of Reference. The Chair of each Committee reports to the Group Board on the matters discussed at Committee meetings. Reports from each Group Board Committee Chair, including information on each Committee's respective composition and activities in the year, can be found in the sections relating to each Committee within this report.

DISCLOSURE COMMITTEE
Chaired by Simon Burke

The Disclosure Committee comprises the Chairman, the CEO, the CFO and the Group General Counsel and Company Secretary. Other Directors, representatives from the Company's brokers, members of the Company's Management Board and Senior Executives 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.

Read more on page 98

NOMINATION AND ESG COMMITTEE
Chaired by Simon Burke

The Nomination and ESG Committee reviews the structure, size, and composition of the Group Board, ensuring that there is a healthy balance of skills, knowledge, experience and diversity and is responsible for reviewing succession plans for the Group Board, Management Board and Senior Executives. The Nomination and ESG Committee is also responsible for the governance and oversight of ESG matters. The Nomination and ESG Committee will normally meet not less than three times a year.

Read more on page 108

AUDIT AND RISK COMMITTEE
Chaired by Jane Lodge

The Audit and Risk Committee's role is to assist the Group Board with the discharge of its responsibilities in relation to financial reporting, including reviewing the Group's annual and half-year Financial Statements and accounting policies, risk management and Internal and External Audits and controls. The Audit and Risk Committee will normally meet not less than four times a year.

Read more on page 113

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 to ensure that these are in line with the long-term interests of the Group, and prepares an annual remuneration report for approval by the shareholders at the Annual General Meeting. The Remuneration Committee will normally meet not less than three times a year.

Read more on page 120

THE MANAGEMENT BOARD – Chaired by Agust Gudmundsson

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

GROUP GENERAL COUNSEL AND COMPANY SECRETARY – Annabel Tagoe-Bannerman

The Group General Counsel and Company Secretary supports both the Group Board and Management Board, ensuring good information flows and advising on all corporate governance matters.

This report's key features

Over the next few pages, the Governance statement, including the reports of the Nomination and ESG Committee, Audit and Risk Committee and Remuneration Committee, explains how we have applied the principles and complied with the provisions of the 2018 Code.

SECTION 1:

BOARD LEADERSHIP AND COMPANY PURPOSE
88 – 103

2018 Code Principles:

A. Effective and entrepreneurial Board to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society

B. Purpose, values and strategy with alignment to culture

C. Resources for the company to meet its objectives and measure performance. Controls framework for management and assessment of risks

D. Effective engagement with shareholders and stakeholders

E. Consistency of workforce policies and practices to support long-term sustainable success

Chairman's introduction to governance	88
Strategic Report	1
Section 172 statement and the Group Board's engagement with key stakeholders	66
Purpose, values and culture	98
Group Board's key activities	99

SECTION 2:

DIVISION OF RESPONSIBILITIES
104 – 105

2018 Code Principles:

F. Leadership of Board by Chair

G. Board composition and responsibilities

H. Role of NEDs

I. Company Secretary, policies, processes, information, time and resources

Group Board composition	106
Roles and responsibilities	104
Time commitment, external appointments, independence and tenure	105

SECTION 3:

COMPOSITION, SUCCESSION AND EVALUATION
106 – 110

2018 Code Principles:

J. Board appointments and succession plans for Board and senior management and promotion of diversity

K. Skills, experience and knowledge of Board and length of service of Board as a whole

L. Annual evaluation of Board and Directors and demonstration of whether each Director continues to contribute effectively

Group Board composition	106
Nomination and ESG Committee report	108
Inclusion and Diversity	110
Group Board, Committee and Director performance evaluation	107

SECTION 4:

AUDIT, RISK AND INTERNAL CONTROLS
112 – 147

2018 Code Principles:

M. Independence and effectiveness of Internal and External Audit functions and integrity of financial and narrative statements

N. Fair, balanced and understandable assessment of the company's position and prospects

O. Risk management and internal control framework and principal risks the company is willing to take to achieve its long-term objectives

Audit and Risk Committee report	113
Risk Management	72
Fair, balanced and understandable assessment	147
Going Concern	146
Viability Statement	87

SECTION 5:

REMUNERATION
120 – 141

2018 Code Principles:

P. Remuneration policies and practices to support strategy and promote long-term sustainable success with executive remuneration aligned to company purpose and values

Q. Procedure for executive remuneration, Director and senior management remuneration

R. Authorisation of remuneration outcomes

Directors' Remuneration Report	120

GROUP BOARD

1

Simon Burke
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.

External appointments: Simon is a Non-executive Director of the Co-operative Group Limited and also Chairman of The Light Cinemas (Holdings) Limited and Blue Diamond Limited.

NC

2

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.

External appointments: Agust currently has no external appointments.

3

Ben Waldron
Chief Financial Officer

Appointment: Ben joined Bakkavor in 2011 as Group Financial Controller and has served as Chief Financial Officer and Executive Director to the Group Board since 27 December 2020.

External appointments: Ben currently has no external appointments.

4

Mike Edwards
Chief Operating Officer, UK

Appointment: Mike joined Bakkavor in 2001 and became Chief Operating Officer UK in 2014 and has served as Executive Director since 27 December 2020.

External appointments: Mike currently has no external appointments.

5

Denis Hennequin
Senior Independent Non-executive Director

Appointment: Denis has served as a Non-executive Director of Bakkavor since February 2017 and is the Chairman of the Remuneration Committee.

External appointments: Denis is currently a Non-executive Director of Eurostar International Limited, JDE Peet's and Expresso House. He is also Vice-Chairman of Pret A Manger, Chairman of PICARD Company Limited and Kellydeli, and a founding partner of investment fund French Food Capital.

AC NC RC

6

Sanjeevan Bala
Independent Non-executive Director

Appointment: Sanjeevan has served as a Non-executive Director of Bakkavor since August 2021.

External appointments: Sanjeevan is currently the Group Chief Data & AI Officer at ITV plc and a Member of the Scholars' Education Trust.

AC

Group Board Committees

AC **Audit and Risk Committee** see page 113

NC **Nomination and ESG Committee** see page 108

RC **Remuneration Committee** see page 120

Umran Beba
Independent, Non-executive Director

Appointment: Umran has served as a Non-executive Director of Bakkavor since September 2020.

External appointments: Umran is currently a partner at August Leadership, an executive search firm. She also serves on the board of the International Youth Foundation, Baltimore and as a trustee at Purchase College Foundation.

NC RC

Jill Caseberry
Independent, Non-executive Director

Appointment: Jill has served as a Non-executive Director of Bakkavor since March 2021.

External appointments: Jill is currently a Non-executive Director, Remuneration Committee Chair and member of the Audit and Nomination Committees of Bellway plc and Halfords Group plc and a member of the ESG Committee of Halfords Group plc. Jill is also a Non-executive Director and member of the Remuneration Committee and ESG Committee of C&C Group plc, and Senior Independent Director, Remuneration Committee Chair and a member of the Audit and Nomination Committees of St. Austell Brewery Company Limited.

NC RC

Patrick L. Cook
Non-independent, Non-executive Director

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

External appointments: Patrick is currently Managing Director at the Baupost Group. He is also a member of the boards of DRS Acquisition LLC, Surfaces Southeast Holdco, LLC and H&P Partners, LLC and a member of the supervisory board of Tanager Group B.V.

Lydur Gudmundsson
Non-independent, Non-executive Director

Appointment: Lydur is one of the founders of Bakkavor and has served as a Non-executive Director since January 2017. 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.

External appointments: Lydur currently has no external appointments.

NC

Jane Lodge
Independent, Non-executive Director

Appointment: Jane has served as a Non-executive Director of Bakkavor since April 2018 and is the Chair of the Audit and Risk Committee.

External appointments: Jane is currently a Non-executive Director and Chair of the Audit Committees of DCC plc and FirstGroup plc, and a Non-executive Director of Glanbia plc.

AC

Annabel Tagoe-Bannerman
Group General Counsel and Company Secretary

Appointment: Annabel joined Bakkavor as Group General Counsel and Company Secretary in June 2019.

GROUP BOARD CONTINUED

1 Simon Burke
Non-executive Chairman

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.

2 Agust Gudmundsson
Chief Executive Officer

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

3 Ben Waldron
Chief Financial Officer

Skills and experience: Prior to joining Bakkavor, Ben was an Assurance and Advisory Director at Ernst & Young London, bringing with him extensive experience in strategy, transactions and consulting. After joining Bakkavor as Group Financial Controller, he became Head of Strategic Development, supporting the Group's IPO in 2017 and leading acquisitions and the disposal of non-core business in the UK and Europe. In January 2019, he took on responsibility for the US business as President of Bakkavor USA and has successfully transformed the US operations into a high growth and profitable business. Ben holds a Bachelor of Science degree from the University of Birmingham.

4 Mike Edwards
Chief Operating Officer, UK

Skills and experience: With over 32 years' experience in the food industry including United Biscuits and Heinz, Mike has extensive operational and commercial expertise. Since joining in 2001, he has held various senior operational roles across Bakkavor. He holds a degree from the Polytechnic of Portsmouth.

5 Denis Hennequin
Senior Independent Non-executive Director

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, 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.

6 Sanjeevan Bala
Independent Non-executive Director

Skills and experience: Sanjeevan is a highly experienced multi-award-winning data and analytics professional with a proven track record of driving customer-centric business transformations through the strategic use of data resulting in EBIT and revenue growth. Sanjeevan has successfully operated across a range of sectors including media, retail, financial services, e-commerce, and telecoms. He brings expertise in digital transformation, data and AI (both the science and development of new operating models and organisational structure to leverage the value of data), innovation and culture. Sanjeevan has had exposure to the food and beverage sector through his time consulting with PwC to Bestfoods, and through his time with Dunnhumby working with Tesco.

7 Umran Beba
Independent Non-executive Director

Skills and experience: Umran is an experienced senior business executive with a general management background and significant expertise in talent and diversity. Umran spent 25 years at PepsiCo Inc., the global food and beverage company, where she held a number of international commercial and functional roles, with her last position being Senior Vice President, Chief Global Diversity and Engagement Officer. From 2010 to 2015, she served as an Independent Non-executive Director on the board of Calbee, Inc, a major Japanese snack foods manufacturer and for eight years until June 2020, was a Future Council Member of the World Economic Forum. She earned her MBA and Bachelor of Science in Industrial Engineering from Bogazici University in Istanbul.

8 Jill Caseberry
Independent Non-executive Director

Skills and experience: Jill is an accomplished general manager with extensive sales, marketing and general management experience across a number of blue-chip companies including Mars, PepsiCo and Premier Foods. Jill brings a depth of understanding of the food industry, spending most of her career in marketing, commercial and general management roles in the food and beverage sector, where she has been involved in both turnaround and growth situations, in a range of branded and own label businesses.

9 Patrick L. Cook
Non-independent, Non-executive Director

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.

10 Lydur Gudmundsson
Non-independent, Non-executive Director

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.

11 Jane Lodge
Independent Non-executive Director

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.

12 Annabel Tagoe-Bannerman
Group General Counsel and Company Secretary

Skills and experience: Annabel has held senior legal positions in a number of companies including Britvic plc and Ladbrokes plc. She was the Group General Counsel and an Executive Committee member at Ladbrokes plc. She trained and began her career in private practice in the City of London at the multinational law firm SJ Berwin LLP. Annabel obtained her post-graduate law degree at The University of Law, UK and qualified as a solicitor (England and Wales) in March 2005. She is also a Chartered Company Secretary (ACIS). Annabel is an alumna of London Business School.

Group Board diversity as at 7 March 2022

By gender
Number of Directors

Male	Female
8	3

By role
Number of Directors

Executive	Non-executive
3	8

By tenure[1]
Number of Directors

<3 years	3-5 years	7-10 years	>10 years
7	4	0	0

MANAGEMENT BOARD

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

Agust Gudmundsson
Chief Executive Officer

See Group Board profile on page 94 →

Mike Edwards
Chief Operating Officer, UK

See Group Board profile on page 94 →

Ben Waldron
Chief Financial Officer

See Group Board profile on page 94 →

Pete Laport
President, Bakkavor US

Pete joined Bakkavor in October 2020. Pete has the overall responsibility for the US operations. After graduating with a degree in engineering and a Masters in Business Administration, Pete has held management, operational and commercial roles at PepsiCo and Nestle, and led the global supply chain for Dunkin' Donuts and Baskin-Robbins ice cream and for fresh prepared salad producer Ready Pac. Pete's most recent role was with Revlon as Global Chief Supply Chain and Manufacturing Officer.

Donna-Maria Lee
Chief People Officer

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

Management Board diversity as at 7 March 2022

By gender
Number of Directors

Male	Female
4	1

By tenure[1]
Number of Directors

<3 years	3-5 years	7-10 years	>10 years
3	2	0	0

1 Since the Company's listing on the London Stock Exchange in October 2017.

Board leadership and Company purpose

The Group Board challenges strategy, performance, and the responsibility of management to ensure that our purpose, values, strategy and culture are aligned and promote the long-term success of the Group, generating value to shareholders and other stakeholders.

THE ROLE AND RESPONSIBILITIES OF THE GROUP BOARD

The Group Board provides effective and entrepreneurial leadership by setting the long-term strategic direction of the Group and overseeing and challenging management's implementation of the strategy, as well as establishing our purpose, vision and values which underpin the culture of the business.

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

The Group Board endeavours to ensure that workforce policies and practices are in line with our values and support the Group's long-term sustainable success.

It is accountable for ensuring that, as a collective body, it has the appropriate skills, knowledge, experience, and resources in place to meet its objectives and perform its role effectively. The Group Board is provided with timely and comprehensive information to enable it to discharge its responsibilities, to encourage strategic debate and to facilitate robust, informed, and timely decision-making. The Group Board also receives regular presentations from key Group heads of functions and updates from the Chair of each Committee.

Subject to company law and the Articles of Association, the Directors may exercise all of the powers of the Company and delegate their power and discretion to Committees. Decisions reserved for the Group Board include approval of strategic plans and annual budgets, acquisitions, audited financial statements, and appointment of additional Directors. Its work also includes engagement with key stakeholders, including our shareholders.

The powers of the Directors are set out in the Schedule of Matters Reserved for the Group Board. This is available for review on our website at www.bakkavor.com/en/investor/governance/default.aspx.

Vision, purpose, values and culture

The Group Board sets the Group's purpose: To delight our customers and consumers through the fresh, convenient, innovative and great-tasting food that we proudly create every day; and our vision: To lead the way in bringing innovative, great-tasting, freshly prepared food to people around the world. Both are key to strengthening the Group's impact among its stakeholders and are supported by the Group's values and strategy.

The Group Board is responsible for assessing, monitoring, and promoting the Group's culture and ensuring that this is closely aligned with its strategy. All Directors act with integrity and lead by example to promote the desired culture.

During the year, the Group Board approved the development of the Group's employer brand, Proud to be Bakkavor, and the evolution of the Group's values. The refreshed values focus on trust and respect: working together, being open and honest with each other and ensuring that we treat all colleagues the same. They are warmer, more personal and more people-focused and are the foundation of our culture and guide our behaviours and reflect who we are today and aspire to be tomorrow.

Our customers and suppliers remain at the heart of what we do as we value and protect our customer partnerships, maintain our commitment to the highest standards of food safety, integrity and quality, innovate to help customers stay ahead and work together with our customers to anticipate future needs.

It is important that we get it right and keep it right; uphold our standards, stay safe and look after ourselves and each other and take responsibility for the impact of our actions on the environment and in our communities. We are proud of what we do and inspire others to work with passion and enthusiasm and look for ways to improve the way we work.

The Group Board received an in-depth review on the evolution of the Group's values from the Chief People Officer and had an opportunity to review and approve a colleague video highlighting our refreshed values and demonstrating the ways in which our values come alive. The colleague video has been well embraced and has served as one of the key tools to embed the values and underpin the culture throughout the business. The Group Board also received feedback from Jill Caseberry, the designated workforce engagement Non-executive Director, on her session with Bakkavor's GEF where she discussed the refreshed values and the work being done to ensure they underpin the Group's culture and support the delivery of our vision.

For further information on the Group's vision, purpose and values, please see pages 16 to 17.

The Management Board

The Group Board is supported by the Management Board, which implements the strategic objectives of the Group Board, agrees on performance criteria, and delegates the detailed planning and implementation of those objectives and policies to Senior Executives (being the Executives within the tier below the Management Board) in accordance with appropriate risk parameters.

The Management Board monitors compliance with policies and achievement against objectives by holding Senior Executives 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 Group corporate strategy agreed upon by the Group Board.
- Executing the Trusted Partner strategy.
- Executing actions in relation to key Group Board decisions such as investments, mergers and acquisitions, disposals, and divestments.
- Monitoring performance and evaluation of health and safety.
- Establishing a system of internal control and risk management.
- Review and approval of revised policies prior to approval by the Group Board.

Committees

The Group Board has established three Board Committees: the Audit and Risk Committee, the Nomination and ESG Committee and the Remuneration Committee. All three Committees comprise only Non-executive Directors and each Committee has agreed Terms of Reference which are available on our website at www.bakkavor.com/en/investors/governance/default.aspx.

These Committees assist with the detailed oversight of Bakkavor's financial reporting, risk management and Internal and External Audit work, ESG matters, establishing the Remuneration Policy and overseeing its implementation, and building appropriate succession and contingency plans for the Directors and Senior Executives, including overseeing workforce engagement, and establishing a diverse pipeline of talent for both the Group Board, Management Board and Senior Executive positions.

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

The Group Board and its Committees renewed their Terms of Reference and Matters Reserved for the Board in 2021.

Conflicts of interest

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

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

Our stakeholders

CUSTOMERS SUPPLIERS INVESTORS COLLEAGUES COMMUNITIES

Key Group Board activities in 2021

Board meetings are an important mechanism through which the Directors discharge their duties, particularly under s.172 of the Companies Act 2006.

The next few pages describe the Group Board's activities during the year under review. Whilst not being an exhaustive list, it provides an indication of the factors affecting our stakeholders which are considered as part of those discussions.

For each Group Board and Committee meeting, a tailored agenda is agreed beforehand by the Chairman, Committee Chair, Chief Financial Officer ("CFO") (as appropriate) and Group General Counsel and Company Secretary.

A typical meeting will comprise reports from the Chief Executive Officer ("CEO") and the CFO and the Chief Operating Officer, UK ("COO"), as well as regional reports (US and China) on current trading and financial performance. There is also a report from the Chief People Officer ("CPO") at each Group Board meeting reviewing the colleague engagement plan, Company values and culture as well as the employer brand. Further, there will be two or three deep dives into areas of strategic importance.

STRATEGIC DEEP DIVES

At each meeting, the Group Board received presentations on and discussed selected strategically significant matters in greater depth to evaluate progress, provide insight and, where necessary, decide on appropriate action.

UK supply chain	• Received an in-depth update on the UK supply chain. • Approved management's approach to the factors affecting the inbound and outbound supply such as COVID-19, Brexit, labour availability, shortage of UK lorry drivers and road and sea freight delays. • Discussed key drivers and recovery of raw materials and packaging inflation. • Reviewed our responsible sourcing strategy which has seen the business evaluate over 500 direct suppliers on environmental, ethical and integrity issues, and engage directly with suppliers in aligning their performance to our requirements, as set out in our Supplier Code of Conduct. • Received updates on strategic supplier relationships, category procurement expertise and the Bakkavor Inbound Logistics ("BIL") centre of excellence.
Culture	• Received updates on the development of human resources at Bakkavor, and the key areas of focus for delivery, including modernising our HR systems, investing in leadership capabilities across the business and improving talent development and succession planning processes. • Received regular updates on Bakkavor's brand and Bakkavor's new values and reviewed and approved a colleague video highlighting our refreshed values, which has served as one of the key tools to embed the values and underpin the culture throughout the business. • Monitored the impact of the Group's values on customers and suppliers ensuring that we value and protect customer partnerships and maintain the highest standards of food safety, integrity and quality, innovate to help customers stay ahead and work together with customers to anticipate future needs. • Received updates on colleague engagement initiatives, including the work of the Wellbeing Steering Committee in relation to how to support colleagues' physical, emotional and financial wellbeing. • Reviewed the outcome of the Employee Engagement Survey which included insights, colleagues' views and responses to changes in the business. • Assessed and monitored the culture by dedicating time at meetings for updates from the Chief People Officer covering discussions on culture, values and colleague workforce matters, monitoring the levels and nature of whistleblowing reports as well as monitoring absenteeism and employee turnover.
ESG	• Received in-depth sustainability briefing from external advisers to prepare for meeting our 2040 Net Zero commitments, utilising offsets and the price of carbon, TCFD and wider reporting duties and the rise of the biodiversity agenda. • Approved the ESG workstreams that are involved in activities that support delivery of our Net Zero commitment and the wider Trusted Partner strategy and reviewed the Group's ESG policies and commitments, including the Net Zero target and KPIs progress and approach. • Monitored implementation of the Trusted Partner strategy and received updates on progress of the Trusted Partner strategy through the year. • Reviewed and considered the Group's community initiatives, how we are delivering these and our progress in doing so. • Received updates on upcoming Task Force on Climate-related Financial Disclosures ("TCFD") requirements and reviewed overall outcomes of climate risk assessment. Further details of our approach to ESG are set out in pages 34 to 61 of the Strategic Report.
Technical risk management and mitigation – health and safety and food safety	• Received regular updates on the health and safety auditing of the business against both standard controls on both an announced and unannounced basis and our technical strategy through the year. • Monitored the business response to the changing impact of the COVID-19 pandemic and progress made in standardising food safety across the business. • Oversaw implementation of control measures based on UK government and Health Security Agency and industry guidance.

CORPORATE GOVERNANCE REPORT CONTINUED

COVID-19 response	• Continued to have oversight and support of the decisions and adjustments made by the Management Board in response to the COVID-19 pandemic. • Received in-depth updates and discussed and monitored the impact of COVID-19 on the business and stakeholders.
Brexit	• Received regular updates on the Group's preparations in light of the developing government guidance, focusing on the supply chain, customers and the management of operational risk, financial impact and potential strategic consequences.
Strategy and Company performance	• Approved the evolved Group strategy to emphasise the importance of trust in everything that we do. The CEO and CFO led discussions focusing on recent trading, general business performance and the key strategic initiatives underway: **UK** • Received updates on progressive trading performance in the UK. • Discussed industry-wide supply chain disruption, labour shortages and inflationary pressures and the mitigating actions. • Discussed COVID-19 and Brexit disruption and continuation of delivering business priorities and UK efficiencies. • Discussed commercial landscape and competitor environment across the UK business. **US** • Discussed industry-wide labour shortages and inflationary pressures and the mitigating actions. • Discussed COVID-19 disruption and continuation of delivering business priorities. • Discussed future capital plans to deliver on the regions' strategic initiatives with region updates on project speed and delivery. • Continued to grow and strengthen our relationship with our existing customers through new product development and expansion of our core offering with new product categories. **China** • Discussed and agreed the forward-looking strategic priorities in China including new business opportunities, important expansion projects such as the completion of new replacement sites in Wuhan and Xi'an, and bakery expansion. • Discussed COVID-19 disruption and continuation of delivering business priorities. • Continued to grow and strengthen our relationship with our existing customers through new product development and expansion of our core offering with new product categories. • Discussed the development of new channel opportunities in retail and office catering.
Financial updates	• Reviewed financial key performance indicators ("KPIs") and introduced further non-financial KPIs. • Recommended the payment of the previously suspended final dividend for 2019 of 4.00 pence per Ordinary share paid on 25 May 2021 to shareholders. • Agreed to reinstate an interim dividend of 2.64 pence per Ordinary share on 15 October 2021 to shareholders and agreed to propose a final dividend of 3.96 pence per Ordinary share at the AGM on 25 May 2022. • Discussed the balance sheet strategy, capital efficiency and leverage position of the Group. • Reviewed financial performance in the UK, US and China. • Received updates on performance against the prior year and against the budget. • Approved the 2022 budget. • Considered and approved the Group Tax Strategy and Policy. • Considered and approved the Group Treasury Policy. • Received regular updates from the Audit and Risk Committee Chair on the Committee's oversight of financial performance. • Approved the viability and going concern statements. • Following the recommendation from the Audit and Risk Committee, approved the reappointment of PwC as the Company's External Auditors and agreed the reappointment be proposed to shareholders at the 2022 AGM. • Oversaw a disciplined approach to, and the implementation of, the capital allocation framework (as set out on page 65 of the Financial Review) to enhance shareholder value. • Approved material capital expenditure projects in line with the Group's Capital Expenditure Policy and specifically in relation to ESG initiatives, challenged the Management Board to direct the strategic implementation of, and capital allocation for, strategic projects supporting the Trusted Partner objectives, including energy efficiency and low carbon projects.

Our stakeholders

CUSTOMERS SUPPLIERS INVESTORS COLLEAGUES COMMUNITIES

Governance and legal governance	• Deep dive into corporate governance led by the Group's external solicitors covering audit and governance reform, shareholder activism and ESG. • Implementation of the 2018 Code for the 2021 financial year. • Reviewed the Group Board and Management Board composition, diversity and succession plans. • Discussed and approved the Non-executive Directors' succession plan. • Undertook an internal evaluation of the Group Board, Committees' and individual Directors' effectiveness and considered the output and recommendations from the evaluation as described on page 107. • Led by the Senior Independent Director, undertook an evaluation of the performance of the Chairman. • Approved the Annual Report and Accounts and the half-year results, going concern and longer-term Viability Statement, Notice of AGM and the Modern Slavery Statement. • Reviewed the roles of the Group Board Committees in light of the changes proposed by the 2018 Code and revised the Terms of Reference for each of the Committees together with the Schedule of Matters Reserved for the Board. These can be reviewed on the Bakkavor website at www.bakkavor.com/en/investors/governance/default.aspx. • Reviewed revisions to the Group's Whistleblowing policy. • Received governance updates and ongoing training on relevant matters throughout the year in light of the changes introduced by the 2018 Code and updates on Directors' duties under the Companies Act 2006.
Investor engagement	• Received regular updates on Bakkavor's share price performance, analyst consensus, analyst ratings and target prices, as well as summary of listed peer results. • Held two investor roadshow events following the full-year results in March 2021 and the interim results in September 2021, both of which were conducted virtually via video conferencing technology due to ongoing COVID-19 restrictions. • Received feedback following investor roadshows and meetings as part of the Group Board pack, and in discussion with the CFO and the Company's brokers, with the key areas of focus being the impact of COVID-19, labour availability and its impact on the supply chain, inflationary headwinds, leverage reduction, dividend and international growth opportunities. • Increased engagement on ESG matters and reviewed and approved the creation of a Group ESG Executive Committee, extended the remit of the Nomination Committee to include ESG governance and oversight, and appointed Umran Beba as designated Non-executive Director on ESG matters and Jill Caseberry as designated workforce engagement Non-executive Director. • Reviewed the investor relations calendar, including consideration of the quarterly trading updates. • Received, reviewed and discussed draft financial results statements and accompanying presentations. • Due to ongoing COVID-19 restrictions we were not able to host investor or analyst site visits during the year, but plan to facilitate this in 2022. • Continued to encourage engagement with investors and other stakeholders.
Risk	• Reviewed the principal risks to the Group and agreed the Group risk appetite for each of the principal risks. • Discussed changes and re-categorisation of principal risks for the 2021 Annual Report and Accounts. • Received technical updates from the UK, US and China concerning health and safety, food safety and whistleblowing. • Agreed the risk-based, internal audit scope, providing assurance on management controls. The internal audit programme is managed by KPMG LLP. • Considered risk appetite in connection with major capital proposals and transformation projects. Proposals are supported by detailed analysis to ensure the risks associated with each project are fully understood. • Discussed the impact of Climate change and sustainability risk on the Group. • Discussed the impact of cyber risk and approved insurance cover. • Encouraged additional mitigation of the risk involved with rising labour costs and increasing concerns about availability of talent. • Received regular updates from the Audit and Risk Committee Chair on the activities of the Audit and Risk Committee during the Full-Year 2021.

CORPORATE GOVERNANCE REPORT CONTINUED

Our stakeholders

CUSTOMERS SUPPLIERS INVESTORS COLLEAGUES COMMUNITIES

Workforce/colleague engagement	• With regard to engagement with colleagues and recognising the colleague voice, considered feedback from the Employee Engagement Survey ("EES") and actions undertaken to recruit and develop talent within the business. See pages 18 to 21, 47 and 67 of the Strategic Report. • Reviewed the designated workforce engagement Non-executive Director role and agreed it was an effective way of enhancing colleague engagement. • While the Group's designated workforce engagement Non-executive Director was being recruited, the Group Board received regular updates from the Chief People Officer on the discussion points with SEF and GEF around COVID-19 and how the input from the workforce shaped the resources provided in the Bakkavor Employee Health and Wellbeing Toolkit, offering colleagues emotional, physical and financial support. • During the year, Jill Caseberry was appointed as the Group's designated workforce engagement Non-executive Director which ensures colleagues have a strong voice and representation across the business and at the most senior level within the business. • Following the appointment of Jill Caseberry as the designated workforce engagement Non-executive Director, Jill attended a session with Bakkavor's SEF and GEF to introduce herself and explain her role. The Group Board received feedback on Jill's engagement with SEF, GEF and colleagues generally. • Jill Caseberry had a follow-up session with the SEF and GEF in early February 2022 which focused on the alignment of Executive remuneration with the wider company pay policy. Other topics covered at the session included an overview of corporate governance; the role of the Remuneration Committee; getting senior Reward right; how Executive remuneration packages work; and a 'Q&A' session. It was well received by our colleagues and was considered to be an engaging, informative and successful session. • Reviewed the results of the EES, and responded to the feedback by supporting the renewal of the Group's values. • Approved a significant investment into two training and development programmes that were launched in 2021: the Executive Leadership Development Programme and the Front-Line Leaders Development Programme. • Continued to focus on health and safety for colleagues. • Discussed employee retention and focus on employee survey results in line with the Group themes on career development and the Group's values, review of the reward strategy and benefit scheme and review of the terms and conditions around pay metrics. • Further embedded the diversity and inclusion culture and oversaw the implementation of the Group policy. For further information on workforce engagement see page 103, Q&A with Jill Caseberry, page 47 of the Trusted Partner report and page 145 of the Directors' Report.
Remuneration	• Determined remuneration arrangements for the Chairman, Executive Directors and Management Board. • Reviewed workforce remuneration and related policies, taking into account the alignment of incentives and rewards with wider Company pay policy when setting the policy for Executive Director remuneration. • Received regular updates from the Remuneration Committee Chair on the activities of the Remuneration Committee during 2021.
Customers and suppliers	• Received updates on the proactive engagement with suppliers and customers to review the potential risks within the supply chain due to labour and raw material shortages, driver availability in the supply chain and inflationary pressures. • Discussed the management of labour requirements and oversaw the decision to focus on core ranges to ensure customer services levels are maintained. • Received updates on the collaboration with customers on sourcing raw materials and discussions with customers in relation to our pricing models to enable us to pass on the inflationary impact of key raw materials. • Received updates on how BIL has provided effective solutions to Brexit-related changes, including a centralised team for customs declarations, end-to-end provision of logistics solutions, and an EU-based consolidation and cross-docking hub, enabling us to consolidate our EU supplies into trucks and reduce potential customs and Export Health Certificate ("EHC") errors or delays.
Group IT strategy	• Reviewed Group IT objectives, strategy and tactics to deliver business trust, value and security resilience. • Monitored the progress made against the 2020 and 2021 Group IT priorities. • Reviewed the status of the UK cyber programme and Group IT international programme. • Discussed Group IT-related risks including cyber security and business continuity.
Key priorities for the Board in 2022	• Continuing to foster relationships and engaging with stakeholders, including colleagues, customers, suppliers, investors and communities. • Driving efficiencies and profitability in the UK. • Accelerating the US investment programme to capitalise on the region's growth opportunities. • Challenging the growth opportunities in China to deliver improved margins. • Engaging with capital markets to drive share performance. • Reviewing strategy and plan to enhance returns on capital. • Aligning culture and values with strategy. • Aligning colleague engagement and talent pipeline development. • Focusing on the ESG framework and its implementation.

Governance in action
Engaging our workforce

The Group Board appointed Jill Caseberry as the Group's designated workforce engagement Non-executive Director to enhance existing engagement.

In July 2021, Jill attended a session with Bakkavor's SEF and GEF via video conference to introduce herself and explain her role as the Group's designated workforce engagement Non-executive Director and how the colleague voice is a priority at boardroom level. Bakkavor's workforce engagement initiatives were also communicated to colleagues via our colleague magazine 'JUST MADE' and colleagues were invited to email Jill with their ideas for increasing engagement with or among colleagues.

The second session, postponed from late 2021 (due to COVID-19 restrictions) until February 2022 in order to take place face to face, was focused on the alignment of Executive remuneration with the wider company pay policy. Other topics covered at the session included an overview of corporate governance; the role of the Remuneration Committee; getting senior Reward right; how Executive remuneration packages work; and a 'Q&A' session. It was well received by our colleagues and was considered to be an engaging, informative and successful session.

Talking to colleagues locally is the best way of getting feedback and in the coming year, Jill will be visiting local sites to give colleagues an opportunity to meet with her and share their views.

Here, Jill gives an insight into her initial impressions of the Group and her career so far:

Q

YOU STARTED YOUR ROLE WITH BAKKAVOR IN MARCH 2021, WHAT ARE YOUR INITIAL IMPRESSIONS OF THE GROUP

The business is friendly, open, engaging and very consistent. From HR to Commercial to Operations, everyone who I have spoken to has the same ambition, drive, determination, and resilience. This is great, as consistency is key in a multi-site business.

Q

CAN YOU TELL US ABOUT YOUR CAREER SO FAR?

During my career, I worked for fast moving consumer goods ("FMCG") companies in the food and beverage space, including Mars, PepsiCo and Premier Foods. I was predominantly in sales and marketing roles and then latterly moved into general management. As a Non-executive Director, I've worked in a number of businesses that have consumers at the heart, such as housing companies and breweries, but until now I've not had a role in FMCG. When Bakkavor approached me, I described it as hitting the bullseye, because this is the sector that I've grown up in and love.

> "In companies like Bakkavor, there has to be a happy balance between Group-based initiatives and local initiatives.

Jill Caseberry
Independent Non-executive Director

Q

HOW IMPORTANT IS IT FOR COLLEAGUES TO HAVE A VOICE IN THE BOARDROOM?

It's critical. However close the executives, non-executives and management team are to the business, we are not on the frontline, delivering for our customers every day. The best ideas to improve processes often come from colleagues, so it's brilliant that Bakkavor has made the colleague voice a priority at boardroom level.

Q

WHAT TEND TO BE THE MAIN COLLEAGUE ENGAGEMENT CHALLENGES FOR A COMPANY LIKE BAKKAVOR?

When you have c.19,000 colleagues, it's difficult to make sure that every individual feels like they are heard and listened to. This is why every idea needs feedback.

Q

BAKKAVOR'S SITE EMPLOYEE FORUMS ("SEF") AND GROUP EMPLOYEE FORUM ("GEF") HELP TO BRING THE COLLEAGUE VOICE TO THE FORE. HOW IMPORTANT ARE FORUMS LIKE THIS?

They are vital. In companies like Bakkavor, there has to be a balance between Group-based initiatives and local initiatives, and site-based forums are a really good way of empowering colleagues to deliver the best from their sites and themselves.

Q

FINALLY, YOU'VE HAD THE CHANCE TO SEE THE TOP-LINE RESULTS OF OUR RECENT EMPLOYEE ENGAGEMENT SURVEY. WHAT DID YOU THINK?

Nothing surprised or concerned me. I thought it was very thorough and was delighted to see questions about wellness and inclusion and diversity, as those topics have really brought the colleague voice to the fore.

Division of responsibilities

The Group Board is satisfied that there is a clear division of responsibility between the leadership of the Group Board and the Executive leadership of the business.

Through the leadership of the Chairman, a culture of debate and open dialogue is promoted with effective contribution of all Non-executive Directors who provide constructive challenge and hold management to account.

Key roles and responsibilities

Chairman **Simon Burke**	The Chairman is responsible for leading the Group Board and creating the right conditions to ensure the Group Board's effectiveness in all aspects of its role, including its membership and that of its Committees. The Chairman sets the Group Board's agenda, in consultation with the Chief Executive Officer and the Group General Counsel and Company Secretary, taking full account of Group Board members' priorities and concerns and the need to allow sufficient time for robust and constructive discussion and challenge. He is responsible for encouraging and facilitating active engagement by all Directors, drawing on their skills, knowledge and experience. The Chairman is also responsible for promoting effective communication between the Group Board, Senior Executives, shareholders and other major stakeholders. The Chairman has a close working relationship with the Chief Executive Officer and the Group General Counsel and Company Secretary to ensure that the strategies and actions agreed by the Group 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 performance of Executive Directors, the Group Board as a whole, the Committees and the interaction between the Executive and Non-executive Directors.
Chief Executive Officer **Agust Gudmundsson**	The Chief Executive Officer ("CEO") has specific responsibility for recommending the Group's strategy to the Group Board and for implementing the strategy once approved. In undertaking such responsibilities, the CEO takes advice from and is provided with support by the Management Board and his Senior Executive team. Together with the Chief Financial Officer and the Chief Operating Officer, the CEO monitors the Group's operating and financial results and directs the day-to-day business of the Group. The CEO is also responsible for the recruitment and development of the Group's Senior Executive team below Group Board level.
Chief Financial Officer **Ben Waldron**	The Chief Financial Officer ("CFO") is responsible for the financial reporting of the Group, monitoring the Group's operating and financial results and management of the Group's internal financial risk management and financial control systems. He supports the CEO 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, Investor Relations, Risk, and Information Systems functions.
Chief Operating Officer, UK **Mike Edwards**	The Chief Operating Officer, UK ("COO") is responsible for overseeing the core UK business. He supports the CEO in implementing the Group's strategy and is responsible for UK Technical, Procurement, Commercial and Operational functions.

Non-executive Directors **Sanjeevan Bala** **Umran Beba** **Simon Burke** **Jill Caseberry** **Patrick Cook** **Lydur Gudmundsson** **Denis Hennequin** **Jane Lodge**	The role of the Non-executive Directors is to offer guidance and advice to the Group Board as a whole and the Executive Directors in particular, drawing on their wide experience across many industries. They also provide scrutiny, constructive challenge and oversight of the Executive Directors and Senior Executives. **NON-EXECUTIVE DIRECTORS' ROLE AT BOARD MEETINGS** Independent and Non-independent Non-executive Directors assess, challenge and monitor the Executive Directors' delivery of strategy within the risk and governance structure agreed by the Group Board. As Group Board Committee members, they also review the integrity of the Group's financial information, recommend appropriate succession plans, monitor Board diversity and set the Directors' remuneration. **NON-EXECUTIVE DIRECTOR TIME COMMITMENT** 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. **EXTERNAL APPOINTMENTS** In advance of any new Group Board appointments, each potential new Non-executive Director is required to provide a detailed overview of all other directorships and significant commitments, together with a broad indication of the time commitment associated with such other directorship(s) or significant commitments(s). All Directors must seek prior approval of the Group Board in advance of undertaking any additional external appointments. The Company recognises that external appointments enable Directors to broaden their knowledge and experience to the benefit of the Company. Before approving any additional external appointments, the Group Board shall consider the time commitment required for the role. Each proposed external appointment shall be reviewed independently. **MONITORING NON-EXECUTIVE DIRECTOR INDEPENDENCE** The Group Board reviews the independence of its Non-executive Directors as part of its annual Board effectiveness review. With the exception of Lydur Gudmundsson and Patrick L. Cook, the Group Board considers the Non-executive Directors to be independent and the Chairman was considered to be independent on appointment. **TENURE** The Company maintains clear records of the terms of service of the Chairman and Non-executive Directors to ensure that they continue to meet the requirements of the 2018 Code. Neither the Chairman nor any of the Non-executive Directors have exceeded the maximum nine-year recommended term of service set out in the 2018 Code.
Senior Independent Non-executive Director **Denis Hennequin**	The Senior Independent Non-executive Director 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 any concerns through communication with the Chairman, CEO 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. Led by the Senior Independent Non-executive Director, the Non-executive Directors meet without the Chairman present at least annually to appraise the Chairman's performance, and on other occasions as necessary.
Group General Counsel and Company Secretary **Annabel Tagoe-Bannerman**	The Group General Counsel and Company Secretary supports and works closely with the Chairman, the CEO, the CFO and the Group Board Committee Chairs in setting agendas for meetings of the Group Board and its Committees. She supports the accurate, timely and clear flow of information to and from the Group Board and its Committees, and between Directors and the Management Board and Senior Executives. The Group General Counsel and Company Secretary leads the legal function and advises the Group Board on corporate governance issues and is responsible for administering Bakkavor's Share Dealing Code and organising the AGM.

Composition, succession and evaluation

The Group Board continuously evaluates the balance of skills, experience, diversity, knowledge and independence among the Directors.

GROUP BOARD COMPOSITION

The Group Board consists of three Executive Directors and eight Non-executive Directors. The biographical details of each of the Directors, along with each of their individual dates of appointment, are set out on pages 94 to 96.

MEETING ATTENDANCE

The Group Board held eight scheduled meetings during the year, and individual attendance is set out below.

Sufficient time is provided, periodically, for the Chairman to meet privately with the Senior Independent Director and the Non-executive Directors to discuss any matters arising.

CURRENT DIRECTORS EXCEPT AS NOTED

		Group Board	Annual General Meeting
Total number of meetings in 2021		8	1
	Scheduled meetings eligible to attend	Scheduled meetings attended	
Executive Directors			
Agust Gudmundsson	8	8	1
Ben Waldron	8	8	1
Mike Edwards	8	8	1
Non-executive Directors			
Simon Burke* (Chairman)	8	8	1
Sanjeevan Bala*[1]	2	2	1
Umran Beba*	8	8	1
Jill Caseberry*[2]	6	6	1
Patrick L. Cook	8	8	1
Lydur Gudmundsson	8	8	1
Denis Hennequin*	8	8	1
Jane Lodge*	8	8	1

*Considered to be independent.
1 Sanjeevan Bala was appointed to the Group Board on 1 August 2021.
2 Jill Caseberry was appointed to the Group Board on 1 March 2021.

GROUP BOARD SKILLS AND EXPERTISE

In light of the current and future needs of the Group Board, part of the role of the Chairman and the Nomination and ESG Committee is to maintain a balance of skills and expertise on the Group Board and to make recommendations to the Group Board where changes are required to maintain that balance.

The Group Board considers that the skills, experience and backgrounds of the Directors are sufficiently relevant and complementary to allow oversight, challenge and review of Bakkavor's progress in achieving its corporate goals.

For information on the skills and experience of each Director and appointments to the Group Board see pages 94 to 96 and page 108 to 111 of the Nomination and ESG Committee report.

GROUP BOARD SUCCESSION AND CHANGES TO THE GROUP BOARD

For information about Group Board succession and changes to the Group Board please see pages 108 to 111 of the Nomination and ESG Committee report.

GROUP BOARD INDUCTIONS

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 Chief People Officer and the Group General Counsel and Company Secretary, includes briefings on industry and regulatory matters relating to Bakkavor, site visits, and face-to-face meetings with the Management Board, Senior Executives and different teams within 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. Over the course of the year, Directors will continually update and refresh their skills and knowledge and seek independent professional advice when required.

The Board received presentations throughout the year from various departments within the business on key topics, including financial performance, human resources, legal, audit, risk and compliance, food safety, health and safety, sustainability, investor relations, corporate governance and corporate finance.

ANNUAL RE-ELECTION OF THE GROUP BOARD

The rules governing the appointment and replacement of Directors can be found in the Articles of Association, the 2018 Code, the Companies Act 2006 and related legislation. Under the terms of the Nomination and ESG Committee, any appointment must be recommended by the Nomination and ESG Committee for approval by the Group Board.

All Directors are subject to annual election or re-election. The Notice of AGM papers accompanying the resolutions for the election or re-election of each Director sets out the specific reasons why the Director's contribution is, and continues to be, important to the Company's long-term sustainable success.

In compliance with the 2018 Code, all Directors will retire and offer themselves for election or re-election, as appropriate, on an annual basis. At our fourth AGM, held on 20 May 2021, each Director offered himself or herself for election or re-election as a Director. All Directors will retire at the 2022 AGM to be held on 25 May 2022 and offer themselves for election or re-election, as appropriate.

GOVERNANCE

Internal Group Board and Committee evaluation

STAGE 1	STAGE 2	STAGE 3	STAGE 4
Group Board to complete questionnaires	Results collated, reported and evaluated	Presentation to the Group Board and discussion	Action plan agreed

PROCESS

The internal Group Board and Committee evaluation process was undertaken in 2021 based on a questionnaire which covered the following topics:

Board Composition and Culture: Composition, Leadership, Dynamics and Decision-making.

Board Oversight: Strategy, Performance, Risk and People.

Stakeholders: Shareholders, Customers and Suppliers, Other Stakeholders and ESG, Purpose, Values and Culture.

Board Efficiency: Board Meetings, Agendas and Minutes and Secretariat.

Committees: Audit and Risk Committee, Nomination and ESG Committee and Remuneration Committee.

The internal review was facilitated by the General Counsel and Company Secretary who is considered a suitable person to conduct this process. The questionnaire was completed by all Group Board members and a report on the outcome of the evaluation exercise was prepared by the General Counsel and Company Secretary and presented to the Group Board.

Group Board evaluation insights

The report concluded from the feedback received from the questionnaire that the Group Board was working well. It was recognised that continued COVID-19 lockdown restrictions meant there were restrictions on in-person meetings between Group Board members and site visits during the year. These would be scheduled for 2022.

COMMITTEES

The Group Board Committees were also reviewed and, overall, were considered to function well in terms of their effectiveness, decision-making and the rigorous manner in which they addressed all issues brought to their attention.

DIRECTORS

The performance of each Director was considered to be effective and both the Group Board and its Committees continue to provide effective leadership and exert the required levels of governance and control.

CHAIRMAN

The Chairman was considered to provide robust leadership for the Group Board.

The Group Board will continue to review its procedures, effectiveness and development in the year ahead.

As well as considering the results of this year's performance evaluation, the Group Board also reviewed performance against the areas identified in the 2020 independent external evaluation undertaken by Clare Chalmers Limited, an independent provider of board evaluations, with no connections to the Group or any individual Directors. The recommendations are summarised below:

2020 External Board evaluation recommendation	Actions – 2021
Review of Group Board and Committee composition. The Company has commenced, with the assistance of an independent external executive search consultancy, the recruitment of an additional independent Non-executive Director.	With the support of Russell Reynolds Associates, Jill Caseberry and Sanjeevan Bala joined the Group Board as independent Non-executive Directors during the year. Jill was appointed as a member of the Remuneration Committee and Nomination and ESG Committee and Sanjeevan Bala was appointed as a member of the Audit and Risk Committee. As a result of this, the Company now has the appropriate balance of independent Non-executive Directors on the Group Board and its Committees.
Greater use of informal pre-Board discussions to enable engagement with different parts of the business.	Informal pre-Board discussions were scheduled throughout the year with presentations to the Group Board on marketing, colleague engagement, commercial strategy and international business review to enable the Group Board to engage with different parts of the business.
Increasing level of engagement with the Senior Executives.	The Group Board received presentations from the Senior Executives throughout the year on a wide range of topics, including UK Supply Chain, Health and Safety and Food Safety and ESG.
Review Board reporting of risk.	Risk reporting was reviewed and has been enhanced to introduce targets for key risk indicators in relation to the risk appetite for each principal risk, and on a quarterly basis, report on the position of each principal risk on the heat map in order to increase the clarity on risk movements.
Site visits by the Group Board to be scheduled when COVID-19 lockdown restrictions are eased (in the meantime engaging with sites remotely).	The continued COVID-19 lockdown restrictions meant that the Group Board (with the exception of the designated workforce engagement Non-executive Director in February 2022) did not attend any site visits. Site visits for the Group Board will be scheduled in 2022.
Focus on Strategy Day in early 2021 to review the Group's strategic priorities and future capital plans to underpin this strategy.	The Group Board took part in a Strategy Day in March 2021 which enabled it to review the strategic priorities and future capital plans to underpin this strategy. The strategy was further reviewed in H2 in light of supply chain issues, labour shortages and inflation.

REPORT OF THE NOMINATION AND ESG COMMITTEE

As Chairman of the Nomination and ESG Committee ("the Committee"), I am pleased to present the report of the Committee for the period ended 25 December 2021.

This was a busy year for the Committee as we continued to focus on the Group Board composition and succession planning and the Group Board Committees' composition and membership, which resulted in the appointment of two Independent Non-executive Directors.

During the year, we strengthened the Group's governance of ESG, and expanded the remit of the Committee so that it monitors the execution of the Trusted Partner strategy, oversees the communication of the Group's ESG activities with its stakeholders and provides input to the Group Board and its Committees on ESG matters as required. In addition, I am delighted that Umran Beba has taken on the role of designated Non-executive Director for ESG matters and feeds back to the Group Board meetings on all ESG matters and the oversight of the execution of the Group's Trusted Partner ESG strategy.

The Committee reviewed Management Board and Senior Executive succession planning and oversaw a number of initiatives in response to feedback received in the Employee Engagement Survey, which included the introduction of Bakkavor's refreshed values, leadership training and the Executive Leadership Development Programme. Inclusion and Diversity remained a key area of focus for the Committee, and we reviewed Group Board diversity, the Group's Inclusion and Diversity Policy and a number of Inclusion and Diversity initiatives held during the year. For more information please see page 47.

COMMITTEE MEMBERSHIP

I was delighted to welcome Jill Caseberry as a member of the Committee and the Company's designated workforce engagement Non-executive Director, effective from August 2021. The Committee currently comprises three Independent Non-executive Directors, namely, Umran Beba, Jill Caseberry and Denis Hennequin and one Non-independent Non-executive Director, Lydur Gudmundsson, and myself as Chair. For the purposes of Committee membership, the Chair of the Group Board is not deemed as independent.

The Committee considers that the membership of the Committee is well balanced in terms of skills, knowledge, effectiveness and experience. Detailed information on the experience, skills and qualifications of the Committee members can be found on pages 94 to 96.

MEETINGS DURING THE YEAR

The Committee held two meetings during the year and the Committee also received a written status update from the Chief People Officer. Details of individual attendance at the meetings are set out below.

Committee meetings and membership

Member	Member since	Scheduled meetings eligible to attend	Scheduled meetings attended
Simon Burke (Chair)	19 October 2020	2	2
Umran Beba	1 September 2020	2	2
Jill Caseberry[1]	13 August 2021	1	1
Lydur Gudmundsson	20 October 2017	2	2
Denis Hennequin	20 October 2017	2	2

1 Jill Caseberry was appointed to the Group Board on 1 March 2021 and became a member of the Committee and the Company's designated workforce engagement Non-executive Director on 13 August 2021.

The Group General Counsel and Company Secretary attends all Nomination and ESG Committee meetings to record meetings and provide advice to the Directors. The Chief People Officer is invited to regularly attend and provide updates on topics such as succession planning, talent acquisition, learning and development and colleague engagement.

To ensure the Committee discharges its responsibilities appropriately, a schedule of meetings, linked to the Committee's Terms of Reference, is approved by the Committee. Following each Committee meeting, I report to the Group Board on the activities of the Committee and make recommendations to the Group Board as appropriate.

ROLE OF THE COMMITTEE

The Committee's role, authority, responsibilities and scope are set out in its Terms of Reference which are available on the Bakkavor website at www.bakkavor.com/investors/governance. The Committee reviews the Terms of Reference annually. The Terms of Reference were updated and approved by the Committee in January 2021 and last updated and approved by the Committee in November 2021.

COMMITTEE EVALUATION

During the year, the Committee undertook an internal evaluation of the effectiveness of the Board and that of its Committees and individual Directors in accordance with the requirement of the 2018 Code and recommendations of the Financial Reporting Council's Guidance on Board Effectiveness.

The evaluation indicated that the Committee continues to operate effectively and efficiently and has the skills and expertise required in order to perform its role appropriately. Further details of the evaluation are included under 'Board evaluation insights' on page 107.

> The Nomination and ESG Committee reviews the structure, size and composition of the Group Board, and makes recommendations to the Group Board on new appointments of Executive and Non-executive Directors. It is also responsible for the governance and oversight of ESG matters.

Simon Burke
Chair, Nomination and ESG Committee

Key activities during the year

Group Board and Committee composition
- Reviewed Group Board and Committee composition.
- Recommended for approval by the Group Board the appointment of two additional Independent Non-executive Directors.

Group Board appointments
- Ensured there is a formal, rigorous, and transparent procedure for the appointment of new Directors to the Group Board and Management Board.

Non-executive Directors
- Reviewed the continued independence of the Non-executive Directors.
- Reviewed Non-executive Director time commitments.
- Monitored the induction of the two additional independent Non-executive Directors.

Succession planning
- Reviewed and updated succession plans for the Group Board, Management Board and Senior Executives.
- Implemented the Front Line Leaders Development Programme and Executive Leadership Development Programme.

Engagement and wellbeing in our workplaces and communities
- Reviewed feedback from the 2021 Employee Engagement Survey and oversaw actions in response to feedback received.
- Received regular updates on engagement and wellbeing in our workplaces and communities.
- Monitored the launch of the Wellbeing Strategy.

Inclusion and diversity
- Reviewed Group Board diversity and the Group's Inclusion and Diversity Policy.
- Received updates on the 2021 Inclusion and Diversity initiatives, including World Day for Cultural Diversity, Pride Month, Disability Awareness Day and National Inclusion Week.
- Reviewed and agreed 2022 Inclusion and Diversity initiatives.

ESG governance
- Monitored and oversaw the execution of Trusted Partner and the work of the Group ESG Executive Committee.
- Recommended the appointment of the designated Non-executive Director for ESG matters.
- Received quarterly updates on ESG progress and initiatives.
- Updated the Committee's Terms of Reference to reflect additional ESG responsibilities.

Governance and Group Board and Committee evaluation
- Received regular updates on corporate governance developments.
- Reviewed the internal Group Board and Committee evaluation report and considered the recommendations.

DETAILS OF KEY ACTIVITIES DURING THE YEAR

How the Committee has discharged its responsibilities during the Full-Year 2021

Key areas of focus

GROUP BOARD COMPOSITION

In January 2021, the Committee undertook a review of the Group Board's composition to identify the steps to be taken to ensure compliance with the 2018 Code. At that time, the Company was not compliant with Provision 11 of the 2018 Code, as less than half of the Group Board was made up of Independent Non-executive Directors, and as a result, lacked the appropriate balance of Executive and Independent Non-executive Directors. In order to achieve the required balance under this provision, the Committee led the process for the appointment of two additional Independent Non-executive Directors to the Group Board.

GROUP BOARD APPOINTMENTS

Prior to making new appointments to the Group Board, the role profile for proposed new Directors is prepared on the basis of the criteria laid down by the Committee, taking into account the Group Board Knowledge and Skills matrix which identifies key areas of diversity, skill or experience that would add to the effectiveness and reach of the Group Board. In all Director recruitment activity, the Committee ensures a formal and rigorous selection process is followed and employs the services of an experienced independent search consultant (who has no affiliation with the Group nor any individual Director and who has adopted the Voluntary Code of Conduct for Executive Search Firms on gender diversity and best practice). A longlist of candidates is reviewed by the Committee and reduced to a credible shortlist of candidates who are then interviewed by members of the Committee. The ideal candidate is then recommended to the Group Board for formal approval.

Following a rigorous selection process, conducted with the assistance of Russell Reynolds Associates, an independent external search consultant, which has no other affiliation with the Group nor any individual Director, Jill Caseberry was appointed as an Independent Non-executive Director, effective from 1 March 2021, and Sanjeevan Bala was appointed as an Independent Non-executive Director, effective from 1 August 2021.

Sanjeevan Bala will be standing for election at the Annual General Meeting on 25 May 2022 and all other Directors will be standing for re-election. The Group Board has set out in the Notice of the Meeting its reasons for supporting the election and re-election of the Directors and their biographical details on pages 94 to 96 demonstrate the range of experience and skills which each brings to the benefit of the Company.

GROUP BOARD COMMITTEES' COMPOSITION

In January 2021, a comprehensive review was undertaken on each of the Non-executive Directors' experience and core competencies, Committee membership, the Committees' compositional requirements under their Terms of Reference, as well as the provisions of the 2018 Code in respect of Committee membership.

REPORT OF THE NOMINATION AND ESG COMMITTEE CONTINUED

Following on from this, the Committee recommended to the Group Board for approval, the appointment of Jill Caseberry as a member of the Remuneration Committee, effective from 1 March 2021 and as the Company's designated workforce engagement Non-executive Director and a member of the Committee, effective from 13 August 2021, and the appointment of Sanjeevan Bala as a member of the Audit and Risk Committee, effective from 1 August 2021.

NON-EXECUTIVE DIRECTORS

Consideration was given by the Committee to the continued independence of the Non-executive Directors, including their term in office, the time commitment required from each of them, taking into account the number of meetings and preparation and attendance at those meetings. It was concluded that all Non-executive Directors remained independent (excluding Lydur Gudmundsson and Patrick L. Cook) and all Non-executive Directors devoted an appropriate amount of time to fulfil their responsibilities.

The Committee considered the Non-executive Directors' time commitment, and it is pleased to note that there are no over-boarding concerns at the current time. It believes that the Non-executive Directors have sufficient time to be effective representatives of stakeholders' interests.

SUCCESSION PLANNING

During the year, the Committee reviewed succession planning at Group Board, Management Board and Senior Executive level to ensure there is a diverse pipeline for succession, taking into account the skills and expertise required by the Company. The review included arrangements relating to contingency planning for sudden and unforeseen departures to ensure the orderly replacement of current Group Board and Management Board members and Senior Executives (e.g. retirement) and medium to long-term planning which focused on identifying potential candidates within the Group for progression and areas where external recruitment may be required for the replacement of Management Board members and Senior Executives. The result of this work highlighted that we have robust plans for our key roles across the business, supported by our Executive Development Programme.

Group Board

The Committee reviewed the Group Board Knowledge and Skills matrix which is used to inform the Group Board recruitment criteria and is confident that the Group Board has the necessary mix of skills and experience to contribute to the Company's strategic objectives.

Management Board

The Committee reviewed the succession planning for the Management Board which was aligned to the Company's talent principles and a new performance rating scale was introduced during the year, designed to clearly differentiate between different types of performance alongside the Company's potential ratings guidance.

Senior Executives

The Committee's succession planning review for Senior Executives considered longer-term planning focused on identifying potential candidates within the Group for progression and areas where external recruitment may be required.

2021 EMPLOYEE ENGAGEMENT SURVEY

The Committee discussed the 2021 Employee Engagement Survey and oversaw the following actions in response to feedback received by colleagues in relation to Bakkavor's values and learning and development opportunities:

Refreshing our values

The Committee oversaw the introduction of Bakkavor's refreshed values with a focus on working together, being open and honest with each other and ensuring we treat all colleagues the same. For more information on our values which drive our long-term culture, see pages 16 to 17.

Talent and leadership training and development

The Committee reviewed the Group's leadership framework which was launched to help Bakkavor's leaders understand the drivers in building high-performing, engaged teams and oversaw the launch of the new leadership development programme targeted at all of our front-line leaders in roles such as Operational Section Management, Engineering, Quality, Hygiene and other operational disciplines. The Group also uses an e-learning platform to equip our current and future business leaders with tools to develop their personal and professional leadership skills.

The Committee monitored the launch of the Executive Development Programme, a 12-month programme of modules and coaching sessions to develop Bakkavor's most senior leaders.

ENGAGEMENT AND WELLBEING IN OUR WORKPLACES AND COMMUNITIES

Engagement and wellbeing in our workplaces and communities is a focus area in our Trusted Partner ESG strategy and it addresses four material issues: Colleague Wellbeing, Health and Safety; Responsible Recruitment and Employment; Engagement, Development and Retention; and Local Causes and Community Engagement. The Committee received regular updates on these issues during 2021 as well as reviewing the Wellbeing Strategy; the Engagement and Wellbeing objectives; and the Engagement calendar for 2022.

INCLUSION AND DIVERSITY

The success of the business relies on the skills, experience and commitment of the diverse range of people who work for the Company. All appointments, including recruitments and internal promotions, are based on merit, qualification and abilities, and are not influenced by race, colour, nationality, religion or belief, gender, marital status or civil partnership, family status, pregnancy or maternity, sexual orientation, disability or age. However, simply having a diverse workforce is not enough. We want to create an equal and inclusive workplace where colleagues feel valued, included and inspired to perform their best.

Our Inclusion and Diversity Policy was launched in 2020 and its three objectives are i) living the Bakkavor values; ii) building an inclusive and diverse workforce across all levels of the organisation; and iii) providing opportunity for colleagues to succeed.

Following the launch of the Inclusion and Diversity Policy, the Committee oversaw the launch of the Inclusion & Diversity Forum ("the Forum") at the beginning of 2021. The Forum is chaired by the Group General Counsel and Company Secretary and represented by individuals from every level of the organisation and for 2021 set the focus on gender diversity and increasing support for female leaders in their career aspirations. The Committee received regular updates on the work of the Forum throughout the year, which included the launch of a Female Mentoring programme to lay the foundations of a three-year plan to drive and accelerate gender equality within the organisation.

The Forum also co-ordinated action around a number of key events through the year, including World Day for Cultural Diversity, Pride Month, Disability Awareness Day and National Inclusion Week. These events were celebrated through a range of site and business-level activities, such as cultural sharing events, educational webinars, shared learning sessions and communication of relevant policies.

Group Board diversity

The Committee recognises the importance of diversity and understands the significant benefits that come with having a diverse Board. The Committee believes that diversity is a wider issue than race and gender, and includes variations in experience, skills, personal attributes, and background. The Company's third gender pay report, which identifies the areas on which the Company has focused, can be found on page 52.

Two new Non-executive Directors were appointed to the Group Board during the year. In addition to the diverse wealth of skills and experience they bring, our newest Group Board members contribute to the improving trend line in gender and ethnic diversity, which are two key objectives for Bakkavor's Group Board. The Committee is proud of its progress in this area and is pleased that Bakkavor is compliant with the recommendations of the Parker Review. The Group Board will continue to appoint on merit, based on the skills and experience required for membership of the Group Board, being mindful of the Hampton-Alexander and Parker Reviews when considering future appointments and giving consideration to all forms of diversity when the Committee reviews the Group Board's composition.

The Company ensures that during the recruitment of Non-executive Directors, the longlists of potential candidates reflect the Group Board's diversity commitments in respect of gender and ethnicity. All longlists of potential appointments include at least 50% female candidates, and the Company is committed to ensuring that candidates from all ethnicities are considered. For appointments to the Group Board, the Company uses executive search consultancies who have signed up to the Voluntary Code of Conduct for Executive Search Firms, setting out the key principles of best practice in the recruitment process. These principles include a recommendation that search firms should consider gender diversity.

ESG

During the year, we have strengthened the Group's governance of ESG, and expanded the remit of the Committee in the second half of the year so that it monitors the execution of the Trusted Partner strategy and oversees the communication of the Group's Trusted Partner activities with its stakeholders.

Environmental

As referred to on page 35, our climate change roadmap has been a primary focus. We committed to Net Zero emissions in our Group-wide operations by 2040, and we have had to quickly embed this goal in our business. This continues to involve bringing together key stakeholders from across the business to understand what this commitment means for our long-term strategy, energise thinking around our response and planning the roll-out of the roadmap across the business and to support delivery.

Our Net Zero emissions roadmap – which you can read about on page 59 in our TCFD report – is a work in progress, which provides us with the structure we need to push on and work towards our goal.

The Committee will receive regular updates on environmental issues such as: Responsible Sourcing (supply chain human rights, environmentally sustainable sourcing and ingredient traceability and integrity) and Sustainability and Innovation (food and other waste, resource efficiency and emissions, impact of packaging and product innovation).

Social

The work of the Committee during the year is outlined above and included the oversight of the social aspects of ESG, with the Committee receiving updates on colleague wellbeing, colleague engagement, development and retention, succession planning and Inclusion and Diversity initiatives and activities undertaken at local sites.

Governance

The Committee will be provided with quarterly updates, including the prioritisation of ESG workstreams during the relevant quarter, and will provide input to the Group Board and its Committees on ESG matters as required. In addition, Umran Beba has taken on the role of designated Non-executive Director for ESG matters and will feed back to the Group Board meetings on all ESG matters and the oversight of the execution of the Group's Trusted Partner ESG strategy.

Corporate governance

The Committee received regular updates on corporate governance developments from the Group General Counsel and Company Secretary and know-how training from external legal advisers.

Simon Burke
Chair, Nomination and ESG Committee
7 March 2022

AUDIT, RISK AND INTERNAL CONTROL

ACCOUNTABILITY

Disclosure Guidance and Transparency Rules (DTR) 7.2.6 and the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410)

Disclosures required under DTR 7.2.6 and the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410), providing information on major interests in shares, the Company's Articles of Association, share capital and capital structure, restrictions attaching to shares and the powers of the Company issuing or buying back shares can be found on pages 143 and 144 of the Directors' Report.

AUDIT, RISK AND INTERNAL CONTROL

Risk management and internal control

The Board has overall responsibility for the Group's system of internal control and risk management. It ensures 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 that outline what can be considered an acceptable level of risk.

The Group Board has established procedures:

- To manage risk, oversee the internal control framework and determine the nature and extent of the principal risks the Company is willing to take in order to achieve its long-term strategic objectives.
- 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.

For further details of the Group Board's approach to risk management see pages 72 to 87 in the Risk Management and Risks section of the Annual Report.

The Audit and Risk Committee, delegated by the Group Board, reviews the effectiveness of the Group's risk management process and internal control system and receives regular reports from management and both 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 an update on the implementation of any corrective actions that are considered necessary. The Audit and Risk Committee reports to the Group Board on the effectiveness of the risk management process.

The principal risks and uncertainties facing the Group are set out on pages 78 to 86 and form part of the Directors' Report.

Whilst the Group Board as a whole is responsible for the Group's system of internal control, 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 Group Board through the Audit and Risk Committee, as part of a structured business review.

The process for identifying, evaluating and managing the principal risks has been in place throughout the financial year. Up to the date of the approval of the Annual Report and Financial Statements, the process accords with the Financial Reporting Council ("FRC") Guidance on Risk Management, Internal Control and Related Financial and Business Reporting and is regularly reviewed by the Group Board and the Audit and Risk Committee. On a regular basis, the risks faced by the Group are reviewed with management and also the Audit and Risk Committee.

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.

In analysing and reviewing risk, the Audit and Risk Committee and the Board consider:

- The nature and extent of the risks, including principal risks, facing the Group, as well as emerging risks;
- The extent and categories of risks it regards as desirable or acceptable for the Group to bear;
- The likelihood of the risk concerned materialising and the impact of associated risk materialising as a consequence;
- The Group's ability to reduce the incidence and impact on its business of risks that do materialise;
- The operation of the relevant controls and control processes;
- The costs of operating particular controls relative to the benefits in managing related risks; and
- The Group's risk culture.

The Directors confirm that the Group Board has carried out a robust assessment of the principal and emerging risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity. No significant failings or weaknesses were identified in the Group Board's assessment of the Group's systems of risk management or internal control.

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 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.

REPORT OF THE AUDIT AND RISK COMMITTEE

I am pleased to report on the activities of the Audit and Risk Committee ("the Committee") for the period ended 25 December 2021.

During the year, the Committee focused on its core responsibilities of supporting the Group Board and protecting the interests of shareholders in relation to financial reporting and internal control. This has been achieved by ensuring that the Group has in place a robust risk management process and an effective internal control framework to manage its risks and the required processes to enable going concern and viability confirmations to be made. In addition, the Committee has continued to focus on ensuring the integrity, quality and compliance of the Group's external financial reporting.

This year has seen industry-wide supply chain and labour challenges, as well as the continuing impact of the COVID-19 pandemic and Brexit implications. The Committee focused its attention on challenging and supporting management's response to these issues by ensuring that the ongoing risks and the relevant mitigating actions have been appropriately modelled and managed.

The Committee also reviewed the alignment of ESG focus areas and ESG material issues to the Group's principal risks and assessed the business's exposure to climate-related risks set out on page 56. In addition, the Committee reviewed the Group's financial reporting approach to the recommendations of the Task Force on Climate-related Financial Disclosures ("TCFD") which the Group has voluntarily followed this year.

COMMITTEE MEMBERSHIP

I was delighted to welcome Sanjeevan Bala as a member of the Committee in August. The Committee currently comprises three Independent Non-executive Directors, namely Denis Hennequin, Sanjeevan Bala and myself as Chair. As a whole, the Committee possesses the skills, competence and relevant financial and commercial expertise to enable it to discharge its responsibilities in a robust and independent manner. Detailed information on the experience, skills and qualifications of all the Committee members can be found on pages 94 to 96.

The Group Board is satisfied that, with my 25 years at Deloitte LLP, I have significant financial experience in the UK listed environment, and the necessary qualifications, skills and experience to fulfil my role as the Committee Chair.

MEETINGS DURING THE YEAR

The Committee held five meetings during the year, and details of individual attendance at the meetings are set out below.

Committee meetings and membership

Member	Member since	Scheduled meetings eligible to attend	Scheduled meetings attended
Jane Lodge (Chair)	3 April 2018	5	5
Sanjeevan Bala[1]	1 August 2021	2	2
Denis Hennequin	20 October 2017	5	5

1 Sanjeevan Bala was appointed to the Board on 1 August 2021.

The Committee discharges its responsibilities through a series of scheduled meetings during the year, the agendas for which include risk assessment and 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 and the programme of External Audit work.

Only Committee members have the right to attend meetings, but the Chief Financial Officer, the Group Financial Controller, the Group Head of Risk, the Internal Auditors (KPMG) and the External Auditors (PwC) are invited to attend meetings of the Committee as the Committee feels appropriate.

The Committee also meets privately, without management present, and receives regular updates from other business areas at several of its meetings. It reviews other additional matters when considered necessary. I meet with the External Auditors and Internal Audit, without management present, on a regular basis in order to discuss any issues which may have arisen.

To ensure the Committee discharges its responsibilities appropriately, a schedule of meetings, 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, I report to the Group Board on the activities of the Committee and make recommendations to the Group Board as appropriate.

ROLE OF THE COMMITTEE

The Committee's role, authority, responsibilities and scope are set out in its Terms of Reference which are available on the Bakkavor website at www.bakkavor.com/investors/governance/default.aspx. The Committee reviews the Terms of Reference annually. The Terms of Reference were last updated in February 2021.

COMMITTEE EVALUATION

During the year, the Committee undertook an internal evaluation of the effectiveness of the Board and that of its Committees in accordance with the requirement of the 2018 Code and recommendations of the Financial Reporting Council's ("FRC") Guidance on Board Effectiveness.

The evaluation indicated that the Committee continues to operate effectively and efficiently and has the skills and expertise required in order to perform its role appropriately. Further details of the evaluation are included under 'Board evaluation insights' on page 107.

REPORT OF THE AUDIT AND RISK COMMITTEE
CONTINUED

> The Audit and Risk Committee's remit covers accounting and financial reporting, the effectiveness of internal controls, identification and management of risks and the External and Internal audit processes.

Jane Lodge
Chair, Audit and Risk Committee

Key activities during the year

Integrity of Financial Statements

- Reviewed the Group's accounting policies to ensure they remain appropriate and have been consistently applied.
- Reviewed and challenged the key financial reporting judgements and estimates and concluded that accounting treatments were appropriate.
- Reviewed and challenged the Group's financial reporting disclosures for TCFD.
- Reviewed and concluded that the Financial Statements and narrative reporting are fair, balanced and understandable.
- Reviewed and concluded that the Group is both a going concern over a period of 12 months from the date of approval of the Financial Statements and viable over the three-year review period, including consideration of the impact of historical forecasting inaccuracy, ongoing COVID-19 restrictions, labour availability and further raw material inflation.

Internal controls and risk management

- Reviewed the Group's internal controls and risk management systems including those for assessing emerging risks and concluded that they are operating effectively.
- Supported the Board in its assessment of risk appetite and development of a Group Risk Appetite Statement.
- Reviewed the alignment of ESG issues and risks to the Group's principal risks.
- Reviewed the Group's assessment of its exposure to climate-related risks.
- Reviewed and updated, where necessary, the Committee's Terms of Reference.

External Audit

- Reviewed and was satisfied with the effectiveness of the External Audit process.
- Approved the terms of engagement and remuneration of the External Auditors.
- Monitored the independence of the External Auditors.
- Reviewed and approved the External Audit plan for the coming year.

Internal Audit

- Reviewed and challenged the work of Group's Internal Audit function (KPMG) and concluded that it is operating effectively.
- Reviewed and approved the Internal Audit Charter.
- Reviewed and approved the Internal Audit plan for the coming year.

DETAILS OF KEY ACTIVITIES DURING THE YEAR

How the Committee has discharged its responsibilities during the Full-Year 2021

Key areas of focus

The Committee has an extensive agenda which focuses on the audit, assurance and risk management processes within the business. During the Full-Year 2021, the work of the Committee principally fell under the following key areas:

Key areas of focus	Matters considered
Financial reporting	The Committee reviewed the form and content of the Annual Report and Financial Statements as well as the half-year and full-year results statements, including the key estimates and judgements made by management in the preparation of the Financial Statements. In order to fulfil these duties, during the year under review, the Committee: • Considered the implications of ongoing COVID-19 restrictions, labour availability and further raw material inflation on the full-year financial statements, including the presentation of the relevant costs. • Considered the implications of COVID-19 on the half-year and full-year results timetables and the changes in reporting processes due to remote working and ensured that adequate review processes were in place. • Reviewed and challenged management on the appropriateness of estimates and judgements made in the preparation of the Financial Statements, including financial reporting and disclosure considerations in respect of climate change. • Reviewed the critical judgements and key sources of estimation uncertainty disclosed in the Financial Statements to ensure they fairly reflected the potential financial impact on the business.

Monitoring the integrity of the Full-Year 2021 Financial Statements including significant judgements
The Committee:

- Reviewed the appropriateness of Group accounting principles, practices and policies and monitored changes to, and compliance with, accounting standards on an ongoing basis.
- Reviewed the half-year and full-year results statements for the Full-Year 2021. Before recommending their release to the Group Board, we compared the results to management financial statements and budgets, focusing on key areas of judgement and also discussed the statements with the External Auditors.
- Reviewed, prior to making recommendations to the Group Board, the Annual Report and Financial Statements for the period ended 25 December 2021.

In undertaking the review, the Committee discussed with management and the External Auditors the critical accounting policies and issues considered most significant in preparing the Annual Report and Financial Statements.

Going concern	• The Committee reviewed the Group's assessment of going concern which is for a period of 12 months from the date of approval of the Financial Statements. Management presented a number of stress scenarios to the Committee which considered historical forecasting inaccuracy and the implications of ongoing COVID-19 restrictions, labour availability and further raw material inflation. The scenario analysis also included the potential impact from lower sales volumes as a result of an increase in retail pricing in response to COVID-19 restrictions and supply chain issues. In assessing going concern, the Committee also reviewed the steps taken by management to ensure adequate liquidity is available to the Group. The Committee concluded that under the scenarios presented, the Group would have sufficient financial resources available to continue to operate through to at least March 2023 and it was therefore appropriate to recommend the adoption of the going concern basis in preparing the Financial Statements.
Impairment of goodwill and intangible assets	As at 25 December 2021, the Group had significant amounts of goodwill and intangible assets 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 forecasts used and the discount rate to be applied for the purpose of the value-in-use calculation. The impairment review allowed for the forecasted costs and expenditure required from 2030 for the Group to meet its Net Zero carbon commitment. The paper also considered downside scenarios if financial performance was below the forecasted amounts. The impairment review indicated that no impairment provisions were required for the period ended 25 December 2021. • Reviewed and approved the associated disclosure in the Financial Statements including the sensitivity analysis in respect of the US CGU which had the lowest level of headroom.
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 under these arrangements at 25 December 2021. The paper included a summary of the key agreements in place and the level of accruals held across the business. • Challenged management on the logic that had been applied to determine the level of accruals held under these arrangements at 25 December 2021. • 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.

REPORT OF THE AUDIT AND RISK COMMITTEE CONTINUED

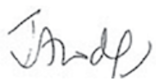
Key areas of focus	Matters considered
Fair, balanced and understandable reporting	Each year, in line with Provision 25 of the 2018 Code and the Committee's Terms of Reference, the Committee is asked by the Group Board to assess, through discussion with, and the challenge of, the Management Board and Senior Executives, whether disclosures in the Group's published Financial Statements were fair, balanced and understandable and whether or not the disclosures provide the information necessary for shareholders to assess the Group's position and performance, business model and strategy. The Committee: • Received papers on key judgement areas that set 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. • Discussed this evaluation with the External Auditors, which took this into account when conducting their audit. It also established through reports from management that there were no indications of fraud relating to financial reporting matters. • Received a detailed paper covering key points and areas of consideration in the preparation of the Group's published Financial Statements for the period ended 25 December 2021, to assist the Committee with its assessment that the disclosures were considered to be fair, balanced and understandable. • Having assessed the available information and the assurances provided by management, concluded that the processes underlying the preparation of the Group's published Financial Statements were appropriate in ensuring that those statements were fair, balanced and understandable.
Risk management and internal control	The Committee is required to assist the Group Board in the annual review of the effectiveness of the Company's risk management process and internal control systems. The Company's principal risks and uncertainties identified are set out on pages 78 to 86. In order to fulfil these duties, during the year under review, the Committee: • Received regular reports and assessments of the current and emerging risks that might threaten the Group's business model, future performance or liquidity. • Received reports on the risk management and mitigation for health, safety & environment and food safety, IT risks (cyber security risks and business continuity), climate change and sustainability risks and tax (including approval of the Group Tax Strategy and Policy). • Considered and challenged management on the overall effectiveness of the risk management and internal control systems in accordance with the Group Board's risk appetite. • Reviewed relevant disclosures within the 'Audit, risk and internal control' section of the Corporate Governance Report which can be found on page 112 of the Annual Report and Accounts. • Reviewed and approved the Internal Audit Plan for 2022, which sets out the planned activities for the year ahead. In light of the above, the Committee continues to be satisfied that the Group control environment remains appropriate and effective and has reported this opinion to the Group Board.
Principal risks and viability	The Committee reviewed and approved the principal risks and uncertainties disclosures on page 76 of the Annual Report and Accounts and the Viability Statement on page 87 of the Annual Report and Accounts. The Committee: • Approved a change of description of the following principal risks; 'Supply chain' replaces 'Raw material and input cost inflation'; 'Availability, recruitment and retention of key colleagues' replaces two separate risks 'Labour availability and cost' and 'Recruitment and retention of key employees'; and 'Climate change and sustainability' replaces 'Sustainability'. • Approved the alignment of ESG focus areas and ESG material issues to the Group's principal risks and uncertainties. • Evaluated a report from management that set out the view of the Group's longer-term viability. Taking the management assessment into account, the Committee agreed to recommend the Viability Statement to the Board for approval. For further information on the Viability Statement see page 87.
TCFD	The Group has voluntarily reported under the TCFD framework for 2021 ahead of the requirement to report for 2022. To assist with TCFD reporting, management engaged specialists Willis Towers Watson to carry out a scenario-driven risk assessment to assess the Group's exposure to climate-related risks. The Committee: • Challenged management's approach to voluntarily reporting under the TCFD framework for 2021. • Reviewed the report prepared by Willis Towers Watson that identified the risks and opportunities in terms of transition and physical risks under various scenarios and challenged management and the specialists on the contents of the report, including the potential impact on the business. • Reviewed the TCFD report prepared by management, including the carbon emissions data for 2021 to ensure it was prepared and disclosed on a consistent basis. • Considered the impact of future carbon tax on the Group's impairment review assumptions. The Committee was satisfied that the TCFD report prepared by management adequately summarised the progress the Group has made under the TCFD framework and that the impact of TCFD had been considered in the Group's annual impairment review.

Key areas of focus	Matters considered
FRC Audit Quality Review	The FRC is a body authorised by the Secretary of State to review and investigate the financial statements, strategic reports and directors' reports of public and large private companies for compliance with relevant reporting requirements. The FRC is also appointed to keep under review periodic reports produced by issuers of listed securities. **Viability and going concern thematic review: Annual Report and Financial Statements to 26 December 2020** During the year, the FRC conducted a thematic review of the viability and going concern disclosures for a sample of annual reports and financial statements with period ends between December 2020 and March 2021, which included Bakkavor's Annual Report and Financial Statements for the period ended 26 December 2020. The Committee was pleased to receive notification from the FRC in September 2021 that Bakkavor's viability statement on page 73 of the Annual Report and Accounts to 26 December 2020 was included in the FRC's thematic review, highlighted as an example of better practice in identifying the key risks to viability. **AQR Inspection Report: Audit of the Annual Report and Financial Statements to 26 December 2020** This monitoring is performed by the FRC's Audit Quality Review ("AQR") team, which periodically undertakes thematic inspections that focus on particular aspects of audit across a sample of audits and firms. The AQR team will select individual audits to inspect and take account of a number of factors, including the assessed risk in relation to the entity and particular sectors that they may wish to focus on. The FRC provides no assurance that the Annual Report and Financial Statements are correct in all material respects; its role is not to verify the information provided but to consider compliance with reporting requirements. The FRC's AQR team reviewed the audit by PwC of the Annual Report and Financial Statements for the period ended 26 December 2020, which the AQR had selected as part of their 2020/21 annual inspection of audit firms. The focus of the review was to identify areas where improvements were required rather than highlighting areas where work was performed at or above the expected level. The scope of the review covered the completeness and accuracy of customer deduction accruals, recoverability of goodwill in relation to the US cash-generating unit ("CGU"), presentation and disclosure of exceptional items, COVID-19 (going concern), revenue recognition, inventories and journals testing. The review also covered the quality of communication with the Committee and certain matters relating to planning, completion, ethics and quality control. On 12 November 2021, the Committee received a copy of the findings from the FRC's AQR team and discussed these with PwC. The Committee confirmed that no significant areas for improvement were identified within the report. A full copy of the review was discussed with PwC at a pre-Audit and Risk Committee meeting before discussion with the wider Committee.
External Audit	Following a competitive tender carried out in 2018, PwC has been the Group's External Auditors for three years since the appointment in 2019. The current External Audit partner is Sandeep Dhillon who has held this role since October 2021. During the year, the Committee considered the approach, scope and risk assessments of External Audit. The Committee: • Met with the key members of the PwC audit team to discuss the 2021 audit plan and agree areas of focus. • Assessed regular reports from PwC on the progress of the 2021 audit and any material issues identified, including management override of controls and fraud in revenue recognition. • Reviewed and debated the draft audit opinion for the 2021 year-end and was briefed by PwC on critical accounting estimates, where significant judgement is needed. • Approved the audit plan and the main areas of focus, including valuation of customer deduction accruals and impairment reviews for goodwill and intangible assets. • Reviewed and discussed with PwC its Audit and Risk Committee report on the 2021 Financial Statements which highlighted any matters arising from the audit work undertaken by the External Auditors. **Audit and audit-related fees** The Committee: • Reviewed and approved a recommendation from management on the Company's audit and audit-related fees payable to the Company's External Auditors, PwC. • Considered the 2021 audit fees to be in line with those expected for a listed company of this type given the complexities of the business, the external reporting requirements and recent regulatory developments that require external auditors to exercise greater independence and rigour in the provision of their services and in the setting of their fees. **Non-audit fees** To prevent the objectivity and independence of the External Auditors becoming compromised, the Committee has a formal policy governing the engagement of the External Auditors to provide non-audit services. The policy is reviewed on an annual basis and this year the Committee reviewed the Group's policy governing non-audit work against details of regulations on the statutory audit of public-interest entities to ensure that its policy remains in line with new regulation. The Committee reviews and updates the Group's policy for the provision of non-audit services to be provided by the External Auditors to ensure that it is in line with regulatory guidance for public-interest entities. The Committee ensures that there are no exceptions to the policy. All non-audit services to the Group provided by the External Auditors will be put to the Committee for prior consideration and approval. The External Auditors do not provide any non-audit services to the Group other than: • Subscription to PwC's online technical portal (Viewpoint) which is a generic accounting subscription service. Management confirmed this platform met their requirements. • The half-year review of the financial statements which is required by legislation and therefore permitted. The Committee provided prior approval for this, having noted that the External Auditors' knowledge of the business made them the preferred choice. Further information on the audit and non-audit fees can be found in Note 6 of the Group Financial Statements on page 173. The Committee confirms that it has complied with the requirements of the CMA Order 2014 regarding audit tendering, auditors' appointment, negotiation and agreement of audit fees and approval of non-audit services.

REPORT OF THE AUDIT AND RISK COMMITTEE
CONTINUED

Key areas of focus	Matters considered
External Audit effectiveness	Under its Terms of Reference, the Committee assesses annually the qualifications, expertise, resources and independence of the External Auditors as well as the quality and effectiveness of the audit process. The Committee assessed the External Auditors' performance and effectiveness through a questionnaire completed by the Committee members and other relevant internal parties and considered the following factors in assessing the effectiveness of the External Audit process: • The experience and expertise of the Audit partner and the audit team; • The internal quality-control processes in place; • The findings from external inspections, including the FRC's July 2021 Audit Quality Inspection report; • The level of professional scepticism displayed throughout the audit process; • The extent to which the audit plan was met and the quality of its delivery and execution; • The robustness and perceptiveness of work performed on key accounting and audit judgements; and • The content of reports on audit findings and other communications. The assessment highlighted that PwC had provided a detailed review of the Full-Year 2020 Annual Report and Financial Statements and best-practice approaches on disclosures as well as demonstrating strong technical knowledge. The assessment also highlighted proposed actions for further consideration to ensure the smooth running of the Full-Year 2021 External Audit and these were reflected in the approach to the management of the Full-Year 2021 audit. In assessing the External Auditors' professional scepticism, the Committee noted in the current year that PwC had robustly challenged management's assumptions and judgements made in carrying out the impairment review of goodwill and intangible assets and the recognition and value of customer deduction accruals. In addition, PwC challenged management's assumptions around downside scenarios including the impact of ongoing COVID-19 restrictions, labour availability and further raw material inflation as part of their work on assessing the viability of the business.
External Auditors' independence	In assessing the independence of the External Auditors, the Committee takes into account the information and assurances provided by the External Auditors confirming that its engagement team and its network firms involved in the audit are independent of any links with the Company. During the year, the Committee reviewed and considered the following factors to assess the objectivity and independence of PwC: • PwC's procedures for maintaining and monitoring independence, including those to ensure that the partners and staff have no personal or business relationships with the Group, other than those in the normal course of business permitted by UK ethical guidance. • The degree of challenge to management and the level of professional scepticism shown by the Audit partner and the audit team throughout the process. • PwC's policies for rotation of the Audit partner every five years, and regular rotation of key audit personnel. The current Audit partner, Sandeep Dhillon, has held this role since October 2021. Following consideration of the performance and independence of the External Auditors, the Committee recommended to the Group Board that the reappointment of PwC as the Company's External Auditors should be proposed to shareholders at the 2022 AGM.
Internal Audit	The Committee oversees the performance, resourcing and effectiveness of the Internal Audit activity. Internal Audit services have been outsourced to KPMG, who were appointed with effect from the beginning of the 2019 financial year. Overall responsibility and direction for the Group's Internal Audit activity is retained by the Group Head of Risk, who reports to the Committee. The Internal Audit activity provides assurance over the effectiveness of key internal controls, as identified as part of the risk assessment process. KPMG reports to the Group Head of Risk throughout the year and to the Committee at least four times a year. The Committee: • Reviewed and assessed the Internal Audit Plan for 2021 ("IA Plan"). The proposed plan represents the third year of the three-year assurance plan that KPMG put in place on its appointment as the Company's Internal Auditors and will be a mixture of full systems audits, in-flight reviews and high-level limited-scope reviews, as agreed with the Committee. The IA Plan responds to certain factors across the Group's operations such as: i) the requirement to continue providing assurance over financial controls across the UK, US and China in support of 'operational excellence'; ii) maintaining a strong system of internal controls across the Group (especially given the global pandemic and its impact on the business's operations); and iii) coverage of information security/cyber controls and the continued importance of infrastructure, network and data security to the Group. • Reviewed and monitored management's responsiveness to the findings and recommendations of the Internal Audit activity. • Reviewed the satisfactory findings following the Internal Audit review of the Company's approach to data protection and the UK General Data Protection Regulation ("UK GDPR") and associated legislation. • Received all Internal Audit reports and, in addition, received summary reports on the results of the work of the Internal Audit activity on a periodic basis. • Approved the appointment of a new Internal Audit Partner, Lyn Yallop, effective from October 2021. The Committee is actively engaged in strengthening the Internal Audit activity and extending its scope during 2022.
Internal Audit effectiveness	The Committee has a duty to carry out an annual assessment of the effectiveness of the Internal Audit function, and as part of this assessment: • Determine whether it is satisfied that the quality, experience and expertise of Internal Audit is appropriate for the business; and • Review and monitor management's responsiveness to the Internal Auditors' findings and recommendations. The Committee recommended that the Internal Audit function was highly effective but improvements could be made by building presence in major governance and control forums throughout the organisation and harnessing technology and sharing best practices.
Whistleblowing	The Committee considered the adequacy of the Group's arrangements by which colleagues may, in confidence, raise concerns about improprieties in matters of financial reporting or other matters. There are several confidential modes for colleagues and third parties to communicate any improprieties in matters of financial reporting or other areas. Moreover, whistleblowing is monitored by the Group Board at each Group Board meeting. The Whistleblowing Policy is reviewed annually.

Key areas of focus	Matters considered
Anti-Bribery and Business Ethics Policy	The Committee considered the adequacy of the Group's arrangements with regard to its anti-bribery and corruption and business ethics processes. The Committee reviewed the Anti-Bribery and Business Ethics Policy which applies across the Group. The Committee concluded that the Anti-Bribery and Business Ethics Policy remains adequate. In 2021, Group Legal launched an anti-bribery and corruption e-learning module for US colleagues and colleagues in China. In addition, as part of our annual legal and governance compliance programme, UK colleagues undertook their first refresher training module on anti-bribery and corruption.
Group IT risks	The Group IT Director provides the Committee with regular updates on cyber security and during the year, the Committee received an in-depth report on Group IT risks. During 2021, we have agreed key security priorities and all are delivering to plan. There had been an increase in cyber security risk over the period due to increased criminal focus on taking advantage of colleague and corporate instability and Bakkavor continued to increase its protection against this risk through the cyber security programme. In 2022, we will continue to invest in Bakkavor's cyber security through our cyber security programme.



Jane Lodge
Chair, Audit and Risk Committee
7 March 2022

DIRECTORS' REMUNERATION REPORT

The Remuneration Committee recommends the Group's policy on Executive remuneration to ensure this is in line with the long-term interests of the Group.

Denis Hennequin
Chair, Remuneration Committee

As Chair of the Remuneration Committee, I am pleased to present, on behalf of the Group Board, the Directors' Remuneration Report for the year ended 25 December 2021.

REMUNERATION COMMITTEE MEMBERSHIP

The Remuneration Committee comprised three Independent Non-executive Directors, and members during the year were Umran Beba, Jill Caseberry and myself as Chair. Jill Caseberry joined the Group Board and the Remuneration Committee on 1 March 2021.

The items considered during the financial year included:

- Agreeing Executive Director base salary increases, effective from 1 January 2021.
- Reviewing performance against the 2020 annual bonus targets and determining the payout .
- Determining the measures and setting performance targets for the 2021 annual bonus and LTIP awards.
- Assessing the impact of the COVID-19 pandemic on Directors' and Senior Executives' remuneration arrangements.
- Consideration of developments in market trends, good practice, the updated investor and proxy agency guidance.
- Updates from the CPO on employment and pay conditions across the wider workforce.
- An update from Jill Caseberry, Bakkavor's Non-executive Director tasked with workforce engagement and bringing colleague views to the Group Board, on remuneration matters raised. Due to the pandemic and in order to enable the most effective workforce engagement session to take place face-to-face, the meeting was postponed and took place on 3 February 2022.

MEETINGS DURING THE YEAR

The Committee held four meetings during the year and the attendance is shown in the table below.

Committee meetings and membership

Member	Member since	Scheduled meetings eligible to attend	Scheduled meetings attended
Denis Hennequin (Chair)	20 October 2017	4	4
Jill Caseberry[1]	1 March 2021	2	2
Umran Beba	1 September 2020	4	4

1 Jill Caseberry was appointed to the Group Board and Remuneration Committee on 1 March 2021.

THIS REPORT IS SPLIT INTO THREE SECTIONS:

- This Annual Statement summarising the work of the Remuneration Committee during the year and our approach to remuneration;
- The 2021 Directors' Remuneration Policy, which was approved by shareholders last year and details the framework and parameters within which Directors are paid; and
- The Annual Report on Remuneration, which sets out the pay and incentive outcomes for the year under review and how the Remuneration Committee intends to implement the Directors' Remuneration Policy in 2022.

There will be an advisory vote at the AGM on 25 May 2022 on the Directors' Remuneration Report, being the Annual Statement and Annual Report on Remuneration.

At a glance summary

What our Executive Directors earned during 2021

The following table provides a summary of total remuneration for 2021 and the prior year. Further details on remuneration are set out between pages 134 and 141.

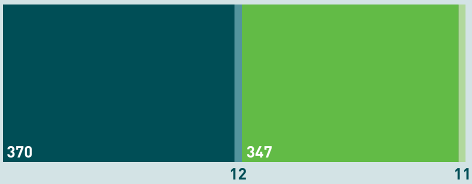
Agust Gudmundsson

Total remuneration
1,278

£000	2021	2020
● Base salary	769	577
● Benefits	22	2
● Bonus	461	0
○ LTIP	–	–
● Pension entitlements	26	115
Total	1,278	694

Ben Waldron

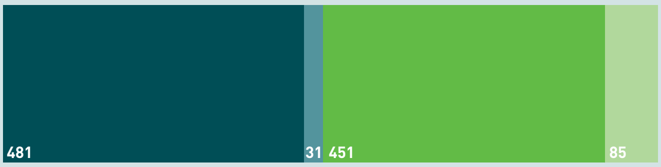
Total remuneration
740



£000	2021
● Base salary	370
● Benefits	12
● Bonus	347
○ LTIP	–
● Pension entitlements	11
Total	740

Mike Edwards

Total remuneration
1,048



£000	2021
● Base salary	481
● Benefits	31
● Bonus	451
○ LTIP	–
● Pension entitlements	85
Total	1,048

Ben Waldron and Mike Edwards joined the Bakkavor Group Board on 27 December 2020, the first day of the 2021 financial year.

2021 annual bonus

Metrics	Weighting	% outcome
Group Adjusted EBIT[2]	75%	75%
Employee turnover	25%	0%
Total (% of max)	100%	**75%**

Group Adjusted EBIT[2] in 2021 was £102 million. As this was equal to the maximum earnings target of £102 million, full bonus was payable for performance against the financial element.

75%
bonus outcome in 2021

Performance against the employee turnover target was not met, and as such a bonus was payable only for the financial element.

2019 LTIP awards

Mike Edwards and Ben Waldron received awards under the Long-Term Incentive Plan in April 2019 when they were Senior Executives, prior to joining the Group Board. These were structured part as restricted shares and part as performance shares which were subject to an earnings per share measure and relative total shareholder return performance to 25 December 2021. Neither of the conditions were met and therefore the performance shares will lapse in full in April 2022. The restricted shares will vest in full in April 2022. Agust Gudmundsson does not participate in the LTIP scheme.

How our Executive Directors will be paid in 2022

A summary of how the Remuneration Committee intends to operate the Remuneration Policy for 2022 is as follows:

Component	Agust Gudmundsson (£000)	Ben Waldron (£000)	Mike Edwards (£000)
Base salary	790	406	494
Pension (% of salary)	3%	3%	20%[1]
Annual bonus maximum (% of salary)	80%	125%	125%
LTIP award (% of salary)	n/a	150%	150%
Shareholding guidelines (% of salary)	200%	200%	200%

1 As disclosed in last year's report, Mike Edwards' pension contribution will reduce to the workforce contribution rate of 3% by the end of the 2023 financial year.

2 Group adjusted EBIT is also referred to as 'Adjusted operating profit'. Alternative Performance Measures ("APMs"), including 'like-for-like', 'adjusted' and 'underlying', are applied consistently throughout the 2021 Annual Report and Accounts. The APMs are defined in full and reconciled to the reported statutory measure in Note 36 of the Notes to the Consolidated Financial Statements.

DIRECTORS' REMUNERATION REPORT CONTINUED

OUR BUSINESS PERFORMANCE IN 2021

Whilst we have faced unprecedented industry-wide challenges, the Group has delivered a robust performance. This has been underpinned by the resilience of the Group's business model, combined with our customer and supplier relationships, category expertise and strengthened financial position. We have been able to respond with agility and effectively manage the disruption to the supply chain and tightening labour market, and the consequential inflationary pressure across our cost base.

We are incredibly grateful for, and admire, the continued commitment and outstanding performance of our colleagues in what has been a challenging period. We have sought to make Bakkavor an even better place to work for our existing colleagues and to support the recruitment of new talent to help mitigate the high numbers of vacancies and enhance retention. We have implemented an out-of-cycle pay increase for the majority of our factory-based colleagues, provided additional and enhanced benefits such as free transport and referral bonuses, upgraded site facilities and invested in developing our talent for the future with the launch of two training programmes.

We have been strongly encouraged by the return in demand for our categories in the UK as COVID-19 government restrictions eased through the year, and volumes have recovered strongly. In the second half of the year, industry-wide disruption across the supply chain and in labour availability have provided a difficult backdrop in which to operate, but our scale, category expertise and strong financial position have enabled us to continue to deliver our core products and a strong pipeline of innovation for our customers. This pace of post-pandemic recovery, coupled with the impact of Brexit-related changes, has resulted in significant inflationary pressure across the cost base in the second half of the year and we successfully secured price increases across our customer base to mitigate the impact.

In the US, sales growth has accelerated as strong demand for our fresh products remains and we have successfully launched a range of ready meals nationally with a strategic customer. Operationally we remain focused on supporting our growth, with investment in attracting new talent and retaining existing colleagues, as well as capital investment to increase capacity. In China, the post-pandemic recovery has been slower with local lockdowns continuing to impact sales, however our strategic focus on entering new channels is being realised, with strong sales growth with grocery retail and office catering customers.

Across the Group we have continued to drive operational efficiency improvements, bolstering our operational excellence team, increasing our spend on payback projects to drive change programmes and in the UK, continuing to roll out a new automated smart manufacturing system, as well as completing an assessment of automation opportunities.

Overall, the Group delivered robust financial progress in the year, despite the challenging backdrop. Group reported revenue increased 4.4% year-on-year to £1,871.6 million and adjusted operating profit was £102.0 million at a margin of 5.4%, up 70 basis points. The Group also reduced net debt and brought leverage within the medium-term target range, at 1.9 times, and continues to operate with significant liquidity headroom. Our strengthened financial position supported the decision to propose a final dividend for 2021, which combined with our interim dividend results in a total 2021 dividend of 6.60 pence per Ordinary share.

REMUNERATION OUTCOMES FOR 2021

Variable pay

The annual bonus plan for 2021 was based 75% on Group Adjusted EBIT (also referred to as adjusted operating profit) and 25% on colleague engagement measured through employee turnover. The profit targets were set at the beginning of 2021 shortly after the UK entered its third lockdown with restrictions not easing until late March. The targets were deemed to be very stretching in the circumstances and had anticipated a recovery from the pandemic during the course of the 2021 financial year. As mentioned earlier, the disruption from the pandemic lessened through the year and sales recovered strongly. The Group delivered adjusted EBIT of £102 million which was equal to the maximum target and therefore, on a formulaic basis, this part of the annual bonus scheme was achieved in full. In contrast, colleague retention became increasingly challenging, largely because of the effects of Brexit and the associated supply of labour, and this resulted in the employee turnover threshold not being met and 25% of the bonus not being earned.

The Remuneration Committee considered carefully the formulaic outcomes for 2021 and whether any adjustment or use of negative discretion was required to reflect the overall performance of the business and the impact on broader stakeholders. The Committee felt that a bonus outcome of 75% of maximum was appropriate in the circumstances as it fairly reflects the strong performance of the business during 2021 and after taking into account the following factors:

- No state aid had been taken during 2021;
- An interim dividend was declared and paid following no full-year dividend for 2020;
- The increased investment in colleagues through additional benefits, better facilities and training and an out-of-cycle pay increase; and
- The low levels of bonus in the last three years (nil, 12.4% of maximum and nil).

Mike Edwards and Ben Waldron were granted restricted share awards in April 2019, prior to their joining the Group Board, alongside performance share awards. Their restricted share awards will vest in April 2022. Ben Waldron was on an international assignment as CEO of Bakkavor US when his 2019 LTIP award was granted. The performance share awards were based on the achievement of earnings per share ("EPS") and relative total shareholder return ("TSR") measures, tested to 25 December 2021. For EPS, the minimum threshold for payment was 16.5 pence and the performance was 10.4 pence, therefore no payment was due. For TSR, Bakkavor ranked in the lower quartile and therefore no payment was due for this measure either. As Group Board Directors, Mike Edwards and Ben Waldron are bound by the Directors' Remuneration Policy and therefore will no longer receive further grants of restricted shares.

CFO'S ADDITIONAL RESPONSIBILITIES

Ben Waldron joined the Board in December 2020 and his base salary (£370,000) was set significantly below his predecessor's salary (£478,675), to reflect his first Board appointment and we stated in last year's report the intention to review and potentially increase his salary as he gains more experience and subject to his contribution and performance.

The Board believes Ben has exceeded expectations during an incredibly challenging period. Furthermore, Ben's scope as CFO is broader than his predecessor's and that of similar roles as it includes global accountability for Group Strategy and Information Technology alongside responsibilities covering Finance, Group Legal and Company Secretariat, Risk, Tax and Investor Relations. Reflecting his exceptional performance over 2021, his importance to the Group and his breadth of responsibility, the Remuneration Committee has decided to increase Ben's salary by 9.7% to £406,000. The Remuneration Committee is acutely aware of the constraints on executive pay and workforce comparisons and, in this case, believes a one-off award is warranted. Benchmarking was used as a secondary reference point and the Committee takes comfort that Ben's salary and total remuneration is not out of line with comparable sector peers.

APPLICATION OF REMUNERATION POLICY FOR 2022

The Remuneration Committee intends to operate the Remuneration Policy for Executive Directors for 2022 as follows:

- Base salaries for the CEO and COO, UK were increased from 1 January 2022 by 2.75% in line with the general salaried workforce increase. As referred to earlier, the Remuneration Committee agreed to an increase of 9.7% for the CFO.
- Annual bonus opportunities will be 80% of salary for the CEO and 125% of salary for the CFO and COO, UK. The annual bonus measures will be the same as last year with 75% based on Group Adjusted EBIT and 25% on colleague engagement measured through employee turnover. The same bonus criteria cascade down to the broader workforce in the UK, covering c.1,400 colleagues with regional profit performance assessed where relevant in the US and China. Over the course of 2022, the Remuneration Committee will review the Group's ESG strategy and consider what related measures or objectives might be introduced in the 2023 suite of metrics.
- It is expected that LTIP awards will be granted in 2022 at 150% of salary to the CFO and COO, UK (the CEO does not participate in the LTIP). As in previous years, half the award will be based on relative TSR performance and half on EPS targets.

SHAREHOLDER FEEDBACK

The Remuneration Committee was pleased to note the very high levels of shareholder support for the 2021 Directors' Remuneration Policy and for our Remuneration Report at last year's Annual General Meeting. We hope you will be supportive of the advisory vote on remuneration at the 2022 AGM.

Denis Hennequin
Chair, Remuneration Committee
7 March 2022

DIRECTORS' REMUNERATION REPORT CONTINUED

DIRECTORS' REMUNERATION POLICY

This part of the Directors' Remuneration Report sets out the Directors' Remuneration Policy ("the Policy") for the Group and has been prepared in accordance with Schedule 8: The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended) and the UK Listing Authority's Listing Rules. This Policy was put to a binding shareholder vote at the 20 May 2021 AGM and is effective for three years from approval. A full copy of the Directors' Remuneration Policy was set out in the 2020 Annual Report and Accounts and can be found in the 'Investors' section of the Company's website, www.bakkavor.com. No changes have been made to the Policy.

KEY CONSIDERATIONS IN 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 Executives 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 the appropriate consistency of approach across the Senior Management population.
- Take due account of good governance and promote the long-term success of the Group.

In seeking to achieve the above objectives, the Remuneration Committee is mindful of the views of a broad range of stakeholders in the business and accordingly takes account of several factors when setting remuneration. This includes 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.

The Policy has considered the principles of the 2018 UK Corporate Governance Code and the voting guidelines of major UK institutional investor bodies. Under the Code, the Remuneration Committee is asked to address six factors in determining the Policy:

1. **Clarity** – the Policy is well understood by our Directors and Management Board and has been clearly articulated to shareholders and proxy voting agencies.
2. **Simplicity** – the Remuneration Committee believes the current market standard remuneration structure is simple and well understood. We have purposefully avoided any complex structures which have the potential to deliver unintended outcomes.
3. **Risk** – our Policy and approach to target setting seek to discourage any inappropriate risk-taking. Measures may be a blend of share price, financial and non-financial objectives and the targets are appropriately stretching to help ensure that the risk of inappropriate actions being taken is mitigated. Enhanced malus and clawback provisions will apply.
4. **Predictability** – Executives' incentive arrangements are subject to individual participation caps. An indication of the range of values in packages is provided in the reward scenario charts included in the Policy report. Deferred bonus and LTIP awards provide alignment with the share price and their values will depend on share price at the time of vesting.
5. **Proportionality** – there is a clear link between individual awards, delivery of strategy and our long-term performance.
6. **Alignment to culture** – pay and policies cascade down the organisation and are fully aligned to Bakkavor's culture.

REMUNERATION POLICY TABLE

The table below sets out, for each element of pay, a summary of how remuneration is structured 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 range of factors into consideration, including: • Business performance. • Salary increases awarded to the overall colleague 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 colleague pay throughout the organisation. Base salary increases are awarded at the discretion of the Remuneration 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.
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 for any relocation costs that may be 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.

DIRECTORS' REMUNERATION REPORT CONTINUED

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Pensions			
The Group aims to provide a contribution towards life in retirement.	Directors are eligible to receive employer contributions to the Company's pension plan (which is a defined contribution plan) or a salary supplement in lieu of pension benefits, or a mixture of both.	The CEO's contribution rate from 1 February 2021 and the CFO's rate is in line with the workforce rate, currently 3% of salary. The current COO's UK pension contribution rate will continue at the level in place prior to his joining the Group Board – 20% of salary – and this will reduce to the workforce rate (currently, 3% of salary) from 1 January 2024. Any future Executive Director appointments will receive pension contributions aligned with the workforce contribution rate in place at the time.	Not performance-related. No recovery or withholding provisions apply.
Short-Term Incentive Plan "STIP" or annual bonus			
The annual bonus scheme rewards the achievement of stretching objectives that support the Group's corporate goals and delivery of the business strategy. 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 Remuneration Committee. Bonus is based on performance over the relevant 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 CEO) for three years under the Deferred Annual Bonus Plan. At the discretion of the Remuneration Committee, participants may also be entitled to receive the value of dividends paid between grant and vesting on vested shares. The payment may assume dividend reinvestment.	The maximum annual bonus opportunity is 150% of salary for Executive Directors. The current CEO's bonus opportunity is lower, at 80% of his base salary. The normal maximum for the CFO and COO, UK is 125% of salary, although this may be increased in line with the maximum 150% of salary limit.	Performance measures are determined by the Remuneration 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 Remuneration Committee. Personal objectives and/or strategic KPIs may also be chosen. Where a sliding scale of targets applies to financial measures, up to 20% of that element may be payable for threshold performance. The bonus measures are reviewed annually, and the Remuneration 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 Remuneration Committee may alter the bonus outcome if it considers that the payout is inconsistent with the Company's overall performance, taking account of any factors it considers relevant. This will help to ensure that the payout reflects overall Company performance during the period. The Remuneration 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' 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. It 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. The Remuneration Committee will consider the prevailing share price when deciding on the number of shares to be awarded as part of any LTIP grant. 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 or exercise. At the discretion of the Remuneration 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 CEO will not participate in the LTIP.	The individual plan limit is 200% of base salary in any financial year. The award policy for the CFO and COO, UK is set at 150% of base salary, although the Remuneration 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 may be subject to relative TSR and earnings per share growth targets. However, the Remuneration 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 Remuneration 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 to ensure that vesting reflects overall Company performance during the period. Awards are subject to recovery and withholding provisions (see 'Recovery and withholding' in the Notes to the policy table for further detail).
All-colleague share schemes			
Encourage colleague 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. 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. Unvested deferred bonus shares and vested LTIP awards which remain unexercised may count towards the in-employment guideline on a net of tax basis.	During employment: Executive Directors are required to build and retain a shareholding in Bakkavor equivalent to at least 200% of their base salary. Post-employment: Executive Directors are normally required to hold shares at a level equal to the lower of their shareholding at cessation and 200% of salary for two years post cessation (excluding shares purchased with own funds and any shares from share plan awards granted before the approval of this policy).	Not performance-related.

DIRECTORS' REMUNERATION REPORT CONTINUED

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
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. They may also receive additional fees for additional responsibilities. The Chairman's fee is reviewed annually by the Remuneration Committee (without the Chairman present). Fee levels for the Non-executive Directors are determined by the Chairman and Executive Directors. In exceptional circumstances if there is a temporary, yet material, increase in the time commitments for Non-executive Directors, the Group 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 and in the Policy approved by shareholders in 2018, 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, Group Board Committee responsibilities and ongoing time commitments. Actual fee levels are disclosed in the Annual Report on Remuneration 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 Remuneration Committee, at its discretion, to reduce the size of any future bonus or share award granted to the colleague, to reduce the size of any granted but unvested share award held by the colleague, or to require the colleague 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, in the event of serious misconduct committed by the colleague, where there has been corporate failure or reputational damage.

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 Remuneration 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 Remuneration Committee to operate the recovery and withholding provisions.

PERFORMANCE CONDITIONS

The choice of performance metrics applicable to the annual bonus scheme reflect the Remuneration 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 Remuneration 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 measures and their weightings for the bonus scheme for the forthcoming year will be set out on a prospective basis, subject to limitations with regard 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 Remuneration 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.

The Remuneration 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 the Company's strategic objectives and the interests of shareholders into account.

DIFFERENCES IN REMUNERATION POLICY BETWEEN EXECUTIVE DIRECTORS AND OTHER COLLEAGUES

The overall approach to reward for colleagues 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 Remuneration 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 colleagues 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.

REMUNERATION COMMITTEE DISCRETION IN OPERATION OF VARIABLE PAY SCHEMES

The Remuneration Committee operates under the powers it has been delegated by the Group Board. In addition, it complies with rules that are either subject to shareholder approval (Long-Term Incentive Plan and Deferred Share Bonus Plan) or to approval by the Group Board (annual performance bonus scheme). These rules provide the Remuneration 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 Remuneration 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 Remuneration 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 Directors' Remuneration 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 judgement relating to measurement of performance in certain circumstances such as a change of control or reconstruction.
- Whether recovery and withholding shall be applied to any award in the relevant circumstances and, if so, the extent to which it shall be applied.
- Making appropriate adjustments as required in certain circumstances, for instance changes in capital structure.

DIRECTORS' REMUNERATION REPORT
CONTINUED

- 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.

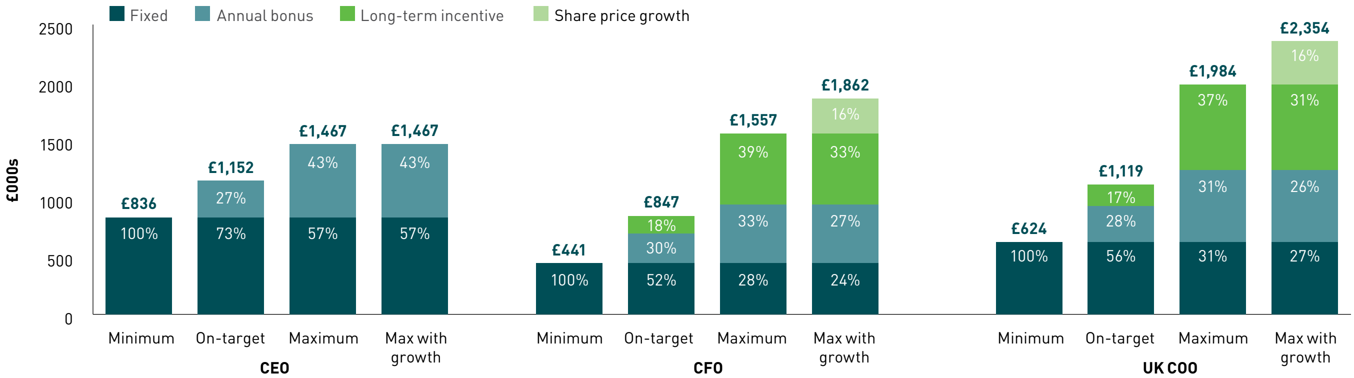
If an event occurs which results in the Annual Bonus Plan or LTIP performance conditions and/or targets being deemed no longer appropriate (e.g. material acquisition or divestment), the Remuneration Committee will have the ability to adjust appropriately the measures and/or targets and alter weightings, 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 Remuneration Committee may approve payments to satisfy commitments agreed prior to the approval of this Policy, including 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 Remuneration Committee may also approve payments outside this Remuneration Policy in order to satisfy legacy arrangements made to a colleague prior to (and not in contemplation of) promotion to the Group Board. This includes restricted share awards (being share awards without any performance criteria) which were granted to below Group Board colleagues who have subsequently been appointed to the Group Board. All historic awards that were granted prior to the approval of this Policy, including 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 2022 remuneration package for each Executive Director under four assumed performance scenarios. These scenarios are based upon the Remuneration Policy set out above.



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

	Minimum	Target	Maximum	Maximum with share price growth
Base salary	As at 1 January 2022			
Benefits	Estimated value for 2022			
Pension	CEO and CFO: 3% of salary; and UK COO: 20% of salary			
Bonus	0% of maximum	50% of maximum	100% of maximum CEO: 80% of salary CFO and UK COO: 125% of salary	As per maximum
LTIP (CFO & UK COO only)	0% of maximum	25% of maximum	100% of maximum CFO & UK COO: 150% of salary	As per maximum but in addition a 50% share price increase over three years is assumed

OTHER REMUNERATION POLICIES

Remuneration for new appointments

Where it is necessary to appoint or replace an Executive Director, the Remuneration 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 Remuneration 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 Remuneration Committee will set a base salary appropriate to the calibre, experience and responsibilities of the new appointee. In arriving at a salary, the Remuneration Committee may take into account, amongst other things, the market rate for the role, internal relativities and his or her salary level prior to joining the Group Board. The Remuneration 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 Remuneration 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 125. 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 in line with the workforce contribution level (currently 3% of salary) may be payable for external appointments or any internal promotions appointed following the approval of this Policy.
Annual bonus	The maximum bonus opportunity is 150% of base salary.
Long-Term Incentive Plan	The maximum opportunity is 200% of base salary. This may be used on recruitment and on an ongoing basis, if appropriate.
Replacement awards	In addition to the above, the Remuneration 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, 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 from those applicable to other Executive Directors.

Any incentive awards granted to colleagues prior to their promotion to the Group Board will be permitted to vest on their original terms.

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. The Remuneration 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. The Remuneration Committee may agree payments it considers reasonable in settlement of legal claims. This may include an entitlement to compensation in respect of leavers' statutory rights under employment protection legislation in the UK or in other jurisdictions.

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.

DIRECTORS' REMUNERATION REPORT CONTINUED

Ordinarily, Executive Directors have no entitlement to a bonus payment in the event 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 Remuneration 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 a colleague 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 a colleague 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

The Company does not have agreements with any Director that would provide compensation for loss of office or employment resulting from a takeover except that provisions of the Company's share schemes and plans may cause options and awards granted to colleagues under such schemes and plans to vest on a takeover. 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
Ben Waldron	1 June 2011	12 October 2020	12 months either party
Mike Edwards	4 September 2001	23 December 2020	12 months either party

POLICY ON EXTERNAL APPOINTMENTS

The Group Board believes that it may be beneficial to the Group for Executives to hold non-executive directorships outside the Group. Any such appointments are subject to approval by the Group Board and the Director may retain any fees received at the discretion of the Group Board. No Executive Director currently holds any external non-executive directorships.

NON-EXECUTIVE DIRECTORS' TERMS OF ENGAGEMENT

Each of the Non-executive Directors are 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 with no other right to compensation for loss of office. 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 first appointment
Simon Burke (Chairman)	1 December 2016	20 October 2017
Umran Beba	1 September 2020	1 September 2020
Jill Caseberry	1 March 2021	24 February 2021
Patrick L. Cook	12 July 2018	12 July 2018
Lydur Gudmundsson	1 August 1986 (founder)	20 October 2017
Denis Hennequin	20 October 2016	20 October 2017
Jane Lodge	3 April 2018	3 April 2018
Sanjeevan Bala	1 August 2021	5 July 2021

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 Group Board as a whole. Individual Non-executive Directors do not take part in discussions in relation to their own remuneration.

SHAREHOLDER VIEWS

The Group Board is committed to open dialogue with shareholders and intends to engage directly with them and their representative bodies when considering any significant changes to 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 Remuneration 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 Remuneration Committee is regularly updated throughout the year on pay and conditions applying to Group colleagues, including any significant changes to employment conditions. However, no specific remuneration comparison measurements were used to inform the Remuneration Committee's policy design considerations.

The Remuneration Committee has considered the new provisions in the UK Corporate Governance Code 2018 with regards to consulting with colleagues. A significant pay and benefits benchmarking exercise was undertaken and presented to the Remuneration Committee during the year. In addition, the designated workforce engagement Non-executive Director, Jill Caseberry, had two sessions with Bakkavor's Group Employee Forum to talk to members on executive remuneration and ensure that the 'colleague voice' is heard in the boardroom. The first session in July 2021 was an introduction to Jill Caseberry and to explain her role as designated workforce engagement Non-executive Director which was conducted via video conference. The second session, postponed from late 2021 (due to COVID-19 restrictions) until February 2022 in order to take place face to face was focused on the alignment of executive remuneration with the wider company pay policy. Other topics at the session included an overview on corporate governance; the role of the Remuneration Committee; getting senior reward right; how Executive remuneration packages work; and a 'Q&A' session. It was well received by our colleagues and was considered to be an engaging, informative and successful session.

The Policy for Executive Directors, which is set out over the previous 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 Remuneration 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 CEO), this ensures that Executives have a strong alignment with shareholders through the Company's share price.

DIRECTORS' REMUNERATION REPORT CONTINUED

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) Regulations 2008 (as amended) 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 25 May 2022.

REPORT OF THE REMUNERATION COMMITTEE

Remuneration Committee membership

The Remuneration Committee is formally constituted and operates on written Terms of Reference which are available at www.bakkavor.com. Members of the Remuneration Committee during the year were:

	Attendance
Denis Hennequin (Remuneration Committee Chair)	4 out of 4
Umran Beba	4 out of 4
Jill Caseberry	2 out of 2

Jill Caseberry joined the Group Board and the Remuneration Committee on 1 March 2021.

The biographies of the Remuneration Committee members are set out on page 96.

Members of management including the CEO, the CFO, the CPO, the Group Head of Reward and the independent adviser to the Remuneration Committee are invited to attend meetings where appropriate. The Group Company Secretary and General Counsel is the secretary to the Remuneration 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.

Independent advisers

The Remuneration Committee takes account of information from both internal and independent sources, including FIT Remuneration Consultants LLP ("FIT") which acts as the Remuneration Committee's independent adviser. FIT was appointed by the Remuneration Committee as a result of a tender process and advised the Remuneration 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 Remuneration Committee reviews the performance and independence of its advisers on an annual basis. The Remuneration Committee was satisfied that FIT's advice was independent and objective. Bakkavor incurred fees of £65,608 excluding VAT during 2021 relating to Remuneration Committee advice. FIT billed on a time and materials basis and did not provide any other services other than share plan implementation advice to Bakkavor during 2021.

SINGLE TOTAL FIGURE OF DIRECTORS' REMUNERATION – YEAR ENDED 25 DECEMBER 2021 (AUDITED)

The total remuneration of the individual Directors who served during the financial year is shown below.

£000s		Base salary	Benefits[1]	Pension	Total fixed remuneration	Bonus	LTIP	Total variable remuneration	Total remuneration
Executive Directors									
Agust Gudmundsson	**2021**	**769**	**22**	**26**	**817**	**461**	**–**	**461**	**1,278**
	2020	577	2	115	694	0	–	0	694
Ben Waldron[2]	**2021**	**370**	**12**	**11**	**394**	**347**	**–**	**347**	**740**
	2020	–	–	–	–	–	–	–	–
Mike Edwards[2]	**2021**	**481**	**31**	**85**	**596**	**451**	**–**	**451**	**1,048**
	2020	–	–	–	–	–	–	–	–
Peter Gates[3]	**2021**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2020	455	12	96	563	0	0	0	563
Non-executive Directors									
Simon Burke (Chairman)	**2021**	**206**	**–**	**–**	**206**	**–**	**–**	**–**	**206**
	2020	177	1	–	178	–	–	–	178
Umran Beba[4]	**2021**	**72**	**1**	**–**	**73**	**–**	**–**	**–**	**73**
	2020	23	–	–	23	–	–	–	23
Denis Hennequin	**2021**	**72**	**–**	**–**	**72**	**–**	**–**	**–**	**72**
	2020	62	–	–	62	–	–	–	62
Jane Lodge	**2021**	**72**	**1**	**–**	**73**	**–**	**–**	**–**	**73**
	2020	62	3	–	65	–	–	–	65
Jill Caseberry[4]	**2021**	**60**	**–**	**–**	**60**	**–**	**–**	**–**	**60**
	2020	–	–	–	–	–	–	–	–
Patrick L. Cook[5]	**2021**	**0**	**–**	**–**	**–**	**–**	**–**	**–**	**0**
	2020	0	–	–	–	–	–	–	0
Lydur Gudmundsson[6]	**2021**	**267**	**1**	**–**	**268**	**–**	**–**	**–**	**268**
	2020	208	2	–	210	–	–	–	210
Sanjeevan Bala[4]	**2021**	**30**		**–**	**30**	**–**	**–**	**–**	**30**
	2020	–	–	–	–	–	–	–	–
Todd Krasnow[7]	**2021**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2020	68	7	–	75	–	–	–	75
Sue Clark[7]	**2021**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2020	56	–	–	56	–	–	–	56
Total	**2021**	**2,399**	**68**	**122**	**2,589**	**1,259**	**0**	**1,259**	**3,848**
	2020	1,688	27	211	1,926	0	0	0	1,926

Notes to the remuneration table:

1 For Executive Directors, taxable benefits comprised car allowance and fuel cards, regional allowance and private medical cover. Lydur Gudmundsson is also entitled to medical cover in the UK for the benefit of his family.

2 Ben Waldron and Mike Edwards joined the Group Board on 27 December 2020.

3 Peter Gates stepped off the Group Board on 26 December 2020.

4 Umran Beba, Jill Caseberry and Sanjeevan Bala joined the Group Board on 1 September 2020, 1 March 2021 and 1 August 2021 respectively.

5 Patrick L. Cook receives no fee for his services.

6 Lydur Gudmundsson's Non-executive Director base fee is £71,925 p.a. 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.U., and a service agreement between Bakkavor Iberica S.L.U. 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:€1.18 (2020: £1:€1.11).

7 Sue Clark and Todd Krasnow stepped down from the Group Board on 27 November 2020 and 19 October 2020 respectively.

2021 ANNUAL BONUS (AUDITED)

During the year, colleagues were eligible for an annual bonus, subject to meeting performance objectives established at the beginning of the financial year by reference to suitably challenging corporate goals over the 12-month period. In 2021, the annual bonus targets and performance-related outcomes were as follows:

Metrics	Weighting	Threshold (0%)	Maximum (100%)	Actual performance	% outcome
Group Adjusted EBIT	75%	£90m	£102m	£102m	75%
Employee turnover	25%	18.8%	16.9%	27.8%	0%
Total (% of max)					**75%**

DIRECTORS' REMUNERATION REPORT CONTINUED

The annual bonus was based 75% on Group Adjusted EBIT and 25% on colleague engagement measured through employee turnover. Financial performance in the year was strong as the business recovered from the pandemic, resulting in a Group Adjusted EBIT performance of £102 million. Employee turnover was particularly difficult in 2021 as retention became increasingly challenging as a result of the combined effects of Brexit and the associated supply of labour; the re-starting of the economy post lockdown; and upward pressure on pay due to inflation. Two-thirds of the bonus earned will be paid in cash and the remaining one-third will be deferred in shares (and in cash for the CEO) for three years.

LONG-TERM INCENTIVE PLAN

Awards with performance periods ending in the year (audited)

Prior to their joining the Group Board, Mike Edwards was granted awards over 236,118 performance shares and 118,094 restricted shares and Ben Waldron was granted awards over 96,852 performance shares and 48,426 restricted shares under the LTIP on 9 April 2019 which are capable of vesting on 9 April 2022. The restricted shares, which are subject to a service condition only, will vest in full. The performance share awards were based 50% on relative TSR targets measured over a three-year period ending on 25 December 2021 and 50% on EPS targets for the year ended 25 December 2021.

Performance over the period was adversely affected by the pandemic and this resulted in neither measure being achieved. The performance shares will therefore lapse.

Measure	Threshold (25% vesting)	Maximum (100% vesting)	Actual	Vesting (% of maximum)
Relative TSR (50%)[1]	Median	Upper quartile	Below median	0%
EPS (50%)	16.5 pence	18.6 pence	10.4 pence	0%

1 The relative TSR peer group comprised Associated British Foods, A.G Barr, Britvic, Coca-Cola HBC, Compass Group, Cranswick, Dairy Crest Group, Devro, Diageo, Domino's Pizza Group, DP Eurasia, EI Group, Fuller Smith & Turner, Greencore Group, Greene King, Greggs, Hilton Food Group, JD Wetherspoon, J Sainsbury, Marston's, McColl's Retail, Mitchells & Butlers, Morrisons (WM), Ocado Group, Premier Foods, PureCircle, Restaurant Group, SSP Group, Stock Spirits Group, Tate & Lyle, Tesco, Unilever and Whitbread.

Awards granted in 2021 (audited)

On 26 April 2021 the following awards, structured as nil-cost options, were made under the LTIP to the CFO and UK COO. The CEO does not participate in the LTIP:

	Date of grant	Basis of award (% of salary)	Face value of awards at grant[1]	Number of shares under award	Date of vesting
Ben Waldron	26 April 2021	150%	£554,999	419,818	26 April 2024
Mike Edwards	26 April 2021	150%	£721,643	545,872	26 April 2024

1 Based on the three-day average share price of £1.322 to 23 April 2021. 25% vests for delivering threshold performance.

The awards will ordinarily become exercisable on the third anniversary of grant subject to continued service and to the extent to which adjusted earnings per share ("EPS") and total shareholder return ("TSR") performance conditions are satisfied that each apply with equal weighting. The performance period for both measures ends in December 2023.

Relative TSR[1]	Earnings per share (for FY2023)	Portion of award vesting
Below median	Less than 12.7p	0%
Median	12.7p	25%
Between median and upper quartile	Between 12.7p and 14.7p	Pro-rata on straight-line basis between 25% and 100%
Upper quartile	14.7p	100%

1 TSR is measured over the three-year period commencing from the start of the 2021 financial year against the following companies: Associated British Foods, A.G Barr, Britvic, Coca-Cola HBC AG, Compass Group, Cranswick, Devro, Diageo, Domino's Pizza Group, Fuller Smith & Turner, Greencore Group, Greggs, Hilton Food Group, JD Wetherspoon, J Sainsbury, Marston's, Mitchells & Butlers, Morrisons, Ocado Group, Premier Foods, Restaurant Group, SSP Group, Stock Spirits Group, Tate & Lyle, Tesco, Unilever and Whitbread.

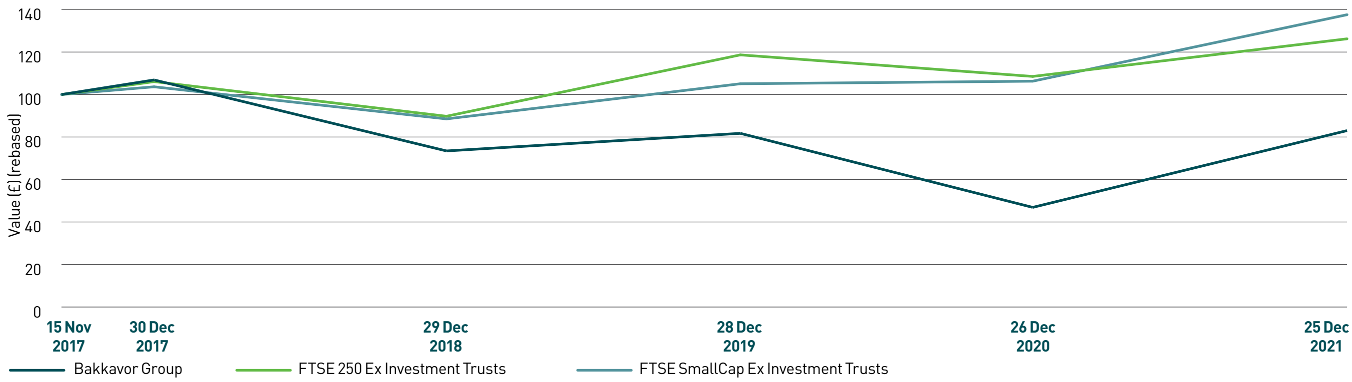
The Remuneration Committee recognises that share prices have been volatile in recent times and to avoid any excessive windfall gains, these awards are subject to a value cap under which an automatic reduction in the size of the award shall apply to the extent that the prevailing share price at the time of the settlement of the award exceeds £3.60.

Awards will be subject to a two-year holding period following vesting as well as malus and clawback provisions.

TOTAL SHAREHOLDER RETURN ("TSR") AND CEO SINGLE FIGURE HISTORY

The chart below shows the Company's TSR performance compared with that of the FTSE 250 Index (excluding investment trusts) and the FTSE SmallCap over the period from the date of the Company's Admission to the London Stock Exchange to 25 December 2021. The FTSE 250 and SmallCap indices are considered by the Group Board to be the most appropriate broad equity comparator indices for Bakkavor as it has been a member of each in the recent period.

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)

CEO SINGLE FIGURE

	CEO	CEO single figure of total remuneration £'000	Annual bonus payout as a proportion of maximum	LTIP vesting as a proportion of maximum
2021	Agust Gudmundsson	£1,278	75%	n/a
2020	Agust Gudmundsson	£694	0%	n/a
2019	Agust Gudmundsson	£987	12.4%	n/a
2018	Agust Gudmundsson	£864	0%	n/a

The CEO does not participate in the LTIP.

OUTSTANDING LTIP AWARDS

Details of all outstanding performance share awards ("PSAs") and restricted share awards ("RSAs") held by the CFO and UK COO:

	Award type[1]	Ex. price	Grant date	Interest at December 2020	Awards granted in year	Awards vested in year	Awards lapsed in year	Interest at December 2021	Date of vesting
Ben Waldron	LTIP 2017[2]	£0.764	1 July 2017	134,163				134,163	1 April 2020
	LTIP 2018 PSA	£0	9 April 2018	59,863			59,863		9 April 2021
	LTIP 2019 PSA	£0	9 April 2019	96,852				96,852	9 April 2022
	LTIP 2019 RSA	£0	9 April 2019	48,426				48,426	9 April 2022
	LTIP 2020 PSA	£0	14 Oct 2020	208,333				208,333	14 Oct 2023
	LTIP 2020 RSA	£0	14 Oct 2020	104,166				104,166	14 Oct 2023
	LTIP 2021 PSA	£0	26 Apr 2021		419,818			419,818	26 Apr 2014
Mike Edwards	LTIP 2017[2]	£0	1 July 2017	600,000				600,000	1 April 2020
	LTIP 2017[2]	£0	1 July 2017	400,000				400,000	1 April 2022
	LTIP 2018 PSA	£0	9 April 2018	162,770			162,770		9 April 2021
	LTIP 2018 RSA	£0	9 April 2018	81,385		81,385		81,385	9 April 2021
	LTIP 2019 PSA	£0	9 April 2019	236,188				236,188	9 April 2022
	LTIP 2019 RSA	£0	9 April 2019	118,094				118,094	9 April 2022
	LTIP 2020 PSA	£0	14 Oct 2020	460,121				460,121	14 Oct 2023
	LTIP 2020 RSA	£0	14 Oct 2020	230,060				230,060	14 Oct 2023
	LTIP 2021 PSA	£0	26 Apr 2021		545,872			545,872	26 Apr 2024

1 Ben Waldron and Mike Edwards received restricted share awards in their roles as Senior Executives prior to joining the Group Board.

2 The 2017 LTIP was in operation prior to listing. The values in the above table for the 2017 LTIP for the UK COO are those awards (which were structured as nil cost options), 600,000 that vested in 2020 and 400,000 that will vest in April 2022 and both tranches remain exercisable until 1 July 2027.

DIRECTORS' REMUNERATION REPORT
CONTINUED

PAYMENTS TO FORMER DIRECTORS AND FOR LOSS OF OFFICE (AUDITED)

Peter Gates retired from the Group Board on 26 December 2020. As disclosed in last year's report, Peter received his base salary, benefits and pension to the date of ceasing employment and did not receive any payment in lieu of notice. As a retiree, Peter was treated as a good leaver and his outstanding share awards (as set out in last year's report) will vest on their normal vesting dates with LTIP awards subject to performance assessment and a time pro-rata reduction.

His 2019 LTIP award was subject to TSR and EPS measures and lapsed in full as set out on page 135.

EXTERNAL DIRECTORSHIPS

No Executive Directors currently hold non-executive directorships at any companies outside the Bakkavor Group.

STATEMENT OF DIRECTORS' SHAREHOLDINGS AND SHARE INTERESTS (AUDITED)

The share interests of each Director as at 25 December 2021 (together with interests held by connected persons) are set out in the table below. As a direct link between executive remuneration and the interests of shareholders, the Remuneration Committee has implemented shareholding guidelines for Executive Directors and key senior colleagues. 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 LTIP awards (net of any taxes due) until this guideline is met.

Shareholdings for Directors who have held office during the year ended 25 December 2021 are set out as a percentage of salary or fees in the table below. During the period from 25 December 2021 to the publication of this report, there have been no changes in the Directors' share interests and none of the Directors hold any loans against their shares or otherwise use their shares as collateral.

	Beneficially owned shares 25 December 2021	Vested but unexercised share awards	Unvested share awards – LTIP	Unvested share awards – DABP	Total interests held at 25 December 2021	Shareholding as a % of salary[2]
Executive Directors						
Agust Gudmundsson	142,103,505	–	–	–	142,103,505	24,696.0%[1]
Ben Waldron	6,380	134,163	877,595	-	1,018,138	2.30%[1]
Mike Edwards	–	681,385	1,990,335	-	2,671,720	12.0%[1]
Non-executive Directors						
Simon Burke (Chairman)	50,000	–	–	–	50,000	n/a
Sanjeevan Bala	–	–	–	–	–	n/a
Patrick L. Cook	–	–	–	–	–	n/a
Lydur Gudmundsson	142,103,505	–	–	–	142,103,505	n/a
Denis Hennequin	–	–	–	–	–	n/a
Jill Caseberry	–	–	–	–	–	n/a
Jane Lodge	–	–	–	–	–	n/a
Umran Beba	–	–	–	–	–	n/a

1 Calculation based on share price of £1.336 as at 25 December 2021.

2 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. Unvested deferred bonus shares and vested LTIP awards (excluding pre-IPO awards) which remain unexercised are included on a net of tax basis and count towards the in employment guideline.

PERCENTAGE CHANGE IN REMUNERATION

The table below shows the percentage change in salary, benefits and annual bonus earned between the 2021 financial year and the prior year for the Group Board compared to the average earnings of all of the Group's other UK colleagues. The change in remuneration is also shown for the previous year which compares 2020 with 2019. While the regulations require comparison against employees of the Company (being Bakkavor Group plc), the Remuneration Committee chose the Group's UK salaried colleagues for pay comparison with the CEO as the most meaningful comparator group as the Company itself does not have any employees.

	2021			2020		
	Salary / Fees	**Benefits**	**Annual bonus**	Salary / Fees	Benefits	Annual bonus
Agust Gudmundsson[1]	**0.00%**	**1000%**	**n/a**	0%	-75%	-100%
Peter Gates	**n/a**	**n/a**	**n/a**	0%	0%	-100%
Simon Burke (Chairman)[1]	**2.75%**	**-100%**	**n/a**	0%	100%	n/a
Jill Caseberry	**n/a**	**n/a**	**n/a**	–	–	–
Patrick L. Cook	**n/a**	**n/a**	**n/a**	0%	n/a	n/a
Lydur Gudmundsson[1]	**2.75%**	**-50%**	**n/a**	0%	-50%	n/a
Denis Hennequin[1]	**2.75%**	**0%**	**n/a**	0%	n/a	n/a
Sanjeevan Bala	**n/a**	**n/a**	**n/a**	–	–	–
Jane Lodge[1]	**2.75%**	**-66.7%**	**n/a**	0%	100%	n/a
Umran Beba[1]	**2.75%**	**100%**	**n/a**	0%	n/a	n/a
Colleague average	**2.75%**	**0%**	**300%**	0%	n/a	n/a

1 As part of the swift actions taken by the Group Board to preserve cash at the onset of the pandemic, the Group Board agreed on voluntary reductions in salary/fees for three months from April to June 2020. The Chairman and Non-executive Directors took a 50% reduction in fees, while the Group's founders (CEO, Agust Gudmundsson and Non-executive Director, Lydur Gudmundsson) did not take a salary or fee during this period. These temporary salary and fee reductions have been excluded to enable easier like-for-like comparisons between 2020 and 2021.

2 Ben Waldron and Mike Edwards are excluded from the 'Percentage change in remuneration' table as they joined the Group Board on 27 December 2020.

Given the makeup of our c.19,000 colleagues, the majority of UK colleagues do not participate in an annual bonus scheme or receive taxable benefits and therefore it is not possible to make any meaningful comparison on the percentage change in annual bonus or benefits.

RELATIVE IMPORTANCE OF SPEND ON PAY

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

	2021	2020	% increase
Staff costs	**£539.2m**	£514.0m	4.9%
Dividends	**£38.5m**	–	n/a

CEO PAY RATIO

In line with the reporting regulations, set out below is the ratio of Group CEO pay compared to the pay of UK full-time equivalent colleagues of the Group for the financial year ended 25 December 2021. We expect the pay ratio to vary from year to year, driven largely by the annual bonus outcome for the Group CEO, which will significantly outweigh any other changes in pay at Bakkavor. The pay ratios are calculated using Option B. The CEO single total figure remuneration of £1,278,000 is given in the table above. The Remuneration Committee is satisfied that the pay ratio is reasonable and consistent with the Company's wider policies on colleague pay, reward and progression; see page 129 for further details.

	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2021	Option B	69:1	59:1	46:1
2020	Option B	41:1	34:1	28:1
2019	Option B	56:1	39:1	36:1

The reason for the significant increase in the pay ratio from Full-Year ended 2020 is two-fold. Firstly, during 2020 and following the onset of the pandemic, the CEO voluntarily received no pay for the three-month period from April to June resulting in an 'artificially' lower figure for 2020. Secondly, the figure for Full-Year ended 2021 includes a payment for bonus (75% of the maximum) compared to Full-Year ended 2020 when no bonus was paid. There was no basic pay increase with effect from January 2021. For this reason, the Group believes the median pay ratio for the relevant financial year is consistent with the pay, reward and progression policies for the Group's UK colleagues taken as a whole.

DIRECTORS' REMUNERATION REPORT
CONTINUED

Bakkavor has calculated the pay ratio using Option B alongside its gender pay data, as it involved the simplest method of calculation, given our large number of colleagues. Total remuneration for all UK full-time equivalent colleagues of the Company has been calculated in accordance with the Option B methodology. The gender pay gap data from April 2021 was used to identify colleagues at the 25th, 50th and 75th percentiles. Data was analysed for a number of colleagues around each quartile figure to ensure that there were no anomalies. Remuneration for each of these individuals was then re-calculated for the 2021 financial year, in line with the methodology for calculating the CEO's remuneration. The Remuneration Committee is satisfied that the resulting figures are reasonable and are appropriately representative for the purposes of the CEO pay ratio calculations. Set out in the table below is the base salary and total pay and benefits for each of the percentiles.

	25th percentile	Median	75th percentile
Salary	£18,252	£21,642	£27,283
Total pay and benefits	£18,608	£21,642	£27,712

STATEMENT OF IMPLEMENTATION OF REMUNERATION POLICY IN 2022

Annual base salary

Base salaries for the Executive Directors, effective 1 January 2022, are set out below:

	Base salary 2022	Base salary 2021	% increase
Agust Gudmundsson	**£789,891**	£768,750	2.75%
Ben Waldron	**£406,000**	£370,000	9.7%
Mike Edwards	**£494,326**	£481,096	2.75%

Base salaries for the CEO and UK COO have increased in line with the budgeted increase for the UK salaried workforce which is the most relevant comparator group. As explained earlier, the base salary for the CFO has increased above the workforce rate reflecting his performance, experience in the role and increased breadth of responsibilities.

BENEFITS AND PENSION

Benefits and pension will be provided in line with the 2021 Directors' Remuneration Policy.

BONUS

The 2022 annual bonus maximum, as a percentage of base salary, is as follows:

Agust Gudmundsson	80% of salary
Mike Edwards	125% of salary
Ben Waldron	125% of salary

For 2022, the annual bonus for the Executive Directors will comprise two measures, consistent with the approach taken in 2021:

- Group Adjusted EBIT (75%).
- Colleague engagement measured through employee turnover (25%).

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

Awards for financial measures will be subject to an underlying performance override, enabling them to be scaled back to reflect the Group's underlying performance. Malus and clawback provisions apply.

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 CEO will be in cash (given his current shareholding), whereas the CFO's and UK COO's deferral will be in shares.

LONG-TERM INCENTIVE PLAN

The Remuneration Committee intends to grant awards of nil-cost options under the Long-Term Incentive Plan in April 2022 to the CFO and UK COO in line with the Directors' Remuneration Policy. Reflecting his founder status and his current shareholding, the current CEO does not participate in the Long-Term Incentive Plan.

The awards granted to the CFO and UK COO 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.

The awards will be subject to relative TSR (measured against a bespoke group of food and drink companies) and EPS measures, each with equal weighting. As the UK emerges from the latest COVID variant, the Remuneration Committee is determining the precise EPS targets at the time this report is being signed off and these will be set out in the RNS at grant.

Awards will be subject to a two-year holding period following vesting as well as malus and clawback. In addition, before an award vests the Remuneration Committee must be satisfied that the underlying performance of the Group is satisfactory. The Remuneration 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 2022

Fees for the Non-executive Directors and Chairman have increased by 2.75% and are as follows:

	Fee
Chairman	£211,151
Base Non-executive Director fee	£73,903

Notes:

Patrick L. 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.U., and a service agreement between Bakkavor Iberica S.L.U. and Bakkavor Holdings Limited, Lydur Gudmundsson is employed to provide consulting services to the Group for a fee of €230,000 per annum. Lydur Gudmundsson is also entitled to medical coverage in the UK for the benefit of his family.

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

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 20 May 2021 in respect of the Directors' Remuneration Report for the year ended 26 December 2020 and in respect of the current Directors' Remuneration Policy:

	Remuneration Report	
	Total number of votes	% of votes cast
For and Discretionary[1]	556,235,173	98.97%
Against	5,795,516	1.03%
Total votes cast (excluding withheld votes)	**562,030,689**	**100.00%**
Total votes withheld	10,625	0.00%
Total votes cast (including withheld votes)	**562,041,314**	**100.00%**

1 13,951 were based on discretionary votes.

	Remuneration Policy	
	Total number of votes	% of votes cast
For and Discretionary[1]	560,488,633	99.72%
Against	1,552,056	0.28%
Total votes cast (excluding withheld votes)	**562,040,689**	**100.00%**
Total votes withheld	625	0.00%
Total votes cast (including withheld votes)	**562,041,314**	**100.00%**

1 13,951 were based on discretionary votes.

On behalf of the Group Board

Denis Hennequin
Chair, Remuneration Committee
7 March 2022

DIRECTORS' REPORT

The Directors present their report, together with the Audited Group Financial Statements, for the year ended 25 December 2021.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Group produces and markets fresh prepared food in the UK, US and China. The Company employs approximately 19,000 colleagues worldwide and is headquartered in London, UK.

DIRECTORS' REPORT CONTENT

For the purposes of Companies Act 2006, 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 ("DTRs") 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 pages 91 to 93. A description of the composition and operation of the Group Board and its Committees is set out on pages 92 to 96.

Other than the area of non-compliance identified on page 91, the Group has complied throughout the accounting period with the 2018 UK Corporate Governance Code.

ENGAGEMENT WITH SUPPLIERS, CUSTOMERS AND OTHERS

In accordance with the Large and Medium-sized Companies and Groups (Accounts and Report) Regulations 2008 (as amended by the Companies (Miscellaneous Reporting) Regulations 2018), the Company's statement on engagement with, and having due regard to, the interests of colleagues and key stakeholders is contained within the Section 172 statement in the Strategic Report on pages 66 to 71.

STRATEGIC REPORT

Section 414A of the Companies Act 2006 ("the Act") requires the Directors to present a Strategic Report in the Annual Report and Financial Statements. This information can be found on pages 1 to 87. The Directors' are satisfied with the Group's net asset position as at 25 December 2021.

MANAGEMENT REPORT

For the purposes of DTR Rules 4.1.5R (2) and 4.1.8, the Directors' Report and the Strategic Report on pages 1 to 87 comprise the Management Report.

DISCLOSURES

This Directors' Corporate Governance Report fulfils the requirements of the Directors' Report for the purposes of the Act. The Strategic Report can be found on pages 1 to 87 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 206 to 207 to comply with section 409 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. This is as follows:

	Page
Important events since the financial year end	208
Likely future developments in the business	22 to 25
Research and development	145
Use of financial instruments	168
Colleague engagement	18
Greenhouse gas emissions	60
Risk management and risks	74 to 86
Details of subsidiaries	206 to 207

LISTING RULE 9.8.4 DISCLOSURES

In accordance with Listing Rule 9.8.4 of the UK Financial Conduct Authority's Listing Rules, the table below sets out the location of the following sections/information within 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
(4)	Details of long-term incentive schemes	Note 31 to the Financial Statements and pages 124 to 141 of Directors' Remuneration Report
(5)	Waiver of emoluments by a Director	Pages 121 to 141 of Directors' Remuneration Report
(6)	Waiver of future emoluments by a Director	Pages 121 to 141 of Directors' Remuneration Report
(7)	Non pre-emptive issues of equity for cash	Not applicable
(8)	Non pre-emptive issues of equity for cash by major subsidiary undertakings	Not applicable
(9)	Parent participation in a placing by a listed subsidiary	Not applicable
(10)	Contracts of significance involving a Director	Page 144 of Directors' Report
(11)	Provision of services by a controlling shareholder	Page 144 of Directors' Report
(12)	Shareholder waivers of dividends	Not applicable
(13)	Shareholder waivers of future dividends	Not applicable
(14)	Agreements with controlling shareholders	Page 144 of Directors' Report

RESULTS

The results for the year ended 25 December 2021 are set out in the Financial Statements on page 157.

DIVIDEND

The Group Board paid an interim dividend of 2.64 pence per Ordinary share on 15 October 2021 to shareholders registered on the record date at 17 September 2021 and will propose a final dividend of 3.96 pence per Ordinary share at the Company's AGM on 25 May 2022. This will result in a total dividend for the financial year 2021 of 6.60 pence per Ordinary share.

Going forward, the Group Board expects to maintain a progressive dividend policy over the medium term and the interim dividend to comprise approximately 40% of the total annual dividend.

The Group's profit for the financial year, after taxation, amounts to £56.8 million (2020: £34.1 million).

DIRECTORS' INSURANCE AND INDEMNITIES

Bakkavor has made qualifying third-party indemnity provisions (as defined in the Act) for the benefit of its Directors. These provisions were in force throughout the year and remain at the date of approval of this Annual Report and Accounts. 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 can be found in the Articles, the 2018 Code, the Act and related legislation. Under the terms of reference of the Nomination and ESG Committee, any appointment must be recommended by the Nomination and ESG Committee for approval by the Group Board.

At the AGM, all Directors will offer themselves for election or re-election as appropriate to the Group Board. All Directors' biographies are set out on pages 94 to 96.

SERVICE CONTRACTS

The Company's policy regarding Directors' service contracts and appointment terms is to take account of market practice and to ensure that notice periods are not excessive.

No Director has a service contract with a notice period in excess of one year.

DIRECTORS' SHARE INTERESTS

The share interests of the Directors as at 25 December 2021 and as at the date of the publication of this report are:

	25 December 2021		Date of publication	
Name	Number of shares	% of voting rights	Number of shares	% of voting rights
Simon Burke	50,000	0.01%	50,000	0.01%
Agust Gudmundsson	142,103,505	24.52%	142,103,505	24.52%
Lydur Gudmundsson	142,103,505	24.52%	142,103,505	24.52%
Ben Waldron	6,380	0.001%	6,380	0.001%

BOARD OF DIRECTORS

The Directors of the Company during the year are set out below and Directors' biographies are set out on pages 94 to 96 of this report. Subject to company law and the Articles, the Directors may exercise all of the powers of the Company and delegate their power and discretion to committees.

The powers of the Directors are set out in the Schedule of Matters Reserved to the Group Board, which is available on the Bakkavor website at www.bakkavor.com/en/investors/governance/default.aspx.

Name	Role	Effective date of appointment
Appointments		
Sanjeevan Bala	Independent Non-executive Director	1 August 2021
Jill Caseberry	Independent Non-executive Director	1 March 2021
Other		
Simon Burke	Chairman	20 October 2017
Umran Beba	Independent Non-executive Director	1 September 2020
Patrick L. Cook	Non-independent Non-executive Director	12 July 2018
Mike Edwards	Chief Operating Officer	27 December 2020
Agust Gudmundsson	Chief Executive Officer	28 September 2017
Lydur Gudmundsson	Non-independent Non-executive Director	20 October 2017
Denis Hennequin	Independent Non-executive Director	20 October 2017
Jane Lodge	Independent Non-executive Officer	3 April 2018
Ben Waldron	Chief Financial Officer	27 December 2020

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

ARTICLES OF ASSOCIATION

The Company's Articles of Association set out the objects and powers of the Company. The Articles of Association detail the rights attaching to shares, the method by which the Company's shares can be purchased or re-issued, the provisions which apply to the holding of and voting at general meetings and the rules relating to the Directors, including their appointment, retirement, re-election, duties and powers. The Company's Articles of Association may be amended by a special resolution passed by the shareholders at an AGM or EGM of the Company. A copy of the Articles of Association can be obtained from the Company's website, www.bakkavor.com/en/investors/governance/default.aspx.

SHARE CAPITAL AND CAPITAL STRUCTURE

The Company's issued share capital as at 25 December 2021 comprised a single class of share divided into Ordinary shares of 2 pence each. At the date of publication, the Company's issued share capital comprised 579,425,585 Ordinary shares. Details of the Company's issued share capital are also shown in Note 28 to the Consolidated Financial Statements.

Details of colleague share schemes are set out in Note 31 to the Consolidated Financial Statements.

DIRECTORS' REPORT CONTINUED

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

There are no specific restrictions on the size of a holding nor on the transfer of Ordinary shares, which are both governed by the general provisions of the Articles and prevailing legislation.

The Company is not aware of any agreements between holders of securities that may result in restrictions on the transfer of securities or that may result in restrictions on voting rights.

There are no persons who hold securities carrying special rights with regard to the control of the Company.

POWERS FOR THE COMPANY ISSUING OR BUYING BACK SHARES
Under the Articles, the Group Board has general and unconditional authority for each prescribed period to exercise all the powers of the Company to allot shares in the Company or to grant rights to subscribe for or to convert any security into shares in the Company in accordance with section 551 of the Act.

The Company was given authority at the 2021 AGM to make market purchases of up to 10% of its issued share capital as permitted under the Articles. The Company made no purchases of its own Ordinary shares during the year ended 25 December 2021 and up to the date of this report.

This standard authority is renewable annually; the Directors will seek to renew this authority at the AGM on 25 May 2022.

A special resolution will be proposed to renew the Directors' authority to repurchase the Company's shares within certain limits and as permitted by the Articles at the AGM on 25 May 2022.

SIGNIFICANT AGREEMENTS AND RELATIONSHIP 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 colleague share plans. None of these are considered to be significant and there are no contracts of significance involving a Director (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 colleagues that provide for compensation for loss of office or employment that occurs because of a takeover bid.

There are no colleague share scheme rights with regard to control of the Company.

CONTROLLING SHAREHOLDERS
The aggregate shareholding in the Company of Carrion Enterprises Limited (the corporate holding structure of Agust Gudmundsson), Umbriel Ventures Limited (the corporate structure of Lydur Gudmundsson) and their concert party group (the "controlling shareholders") is 50.15%. The Company is party to a relationship agreement with Carrion Enterprises Limited, Umbriel Ventures Limited, the trustee(s) of The A.G. Trust (which owns 100% of Carrion Enterprises Limited) and the trustee(s) of The L.G. Trust (which owns 100% of Umbriel Ventures Limited).

Lixaner Co Limited (an entity which is a concert party of Carrion Enterprises Limited and Umbriel Ventures Limited following its acquisition of shares in the Company on 23 May 2019) executed a Deed of Adherence to the relationship agreement on 15 April 2020 and is duly bound by its terms.

This agreement regulates the relationship between the Company and the controlling shareholders as required by the Listing Rules, including Listing Rule 9.2.2AR(2)(a) and Listing Rule 6.1.4DR. In accordance with the requirements of Listing Rule 9.8.4R(14), the Group Board confirms that: (i) the Company has complied with the independence provisions set out in the relationship agreement during the period under review; and (ii) so far as the Company is aware, the controlling shareholders complied with the independence provisions set out in the relationship agreement during the period under review.

There were no contracts for the provision of services to the Group by a controlling shareholder.

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. There were no other interests in shares notified between 25 December 2021 and 7 March 2022, being the last practicable date.

	25 December 2021		Date of publication	
Name	Number of Ordinary shares	% of voting rights	Number of Ordinary shares	% of voting rights
Carrion Enterprises Limited (corporate holding structure of Agust Gudmundsson)	142,103,505	24.52	142,103,505	24.52
Umbriel Venture Limited (corporate holding structure of Lydur Gudmundsson)	142,103,505	24.52	142,103,505	24.52
BP-PE5 L.L.C. (corporate holding structure of the Baupost Group)	143,832,928	24.82	143,832,928	24.82
Ruffer LLP	29,342,732	5.06	29,342,732	5.06
Aberforth Partners LLP	28,996,413	5.0	28,996,413	5.0

ENGAGEMENT WITH SHAREHOLDERS

The Group Board supports the aims of the 2018 Code and the UK Stewardship Code to promote engagement and interaction between listed companies and their major shareholders.

The Group Board welcomes the opportunity for investors and shareholders to engage directly with the Chairman and Senior Independent Director, Audit and Risk and Remuneration Committee Chairs and also with the CEO and CFO. An appropriate range of investor relations events following the publication of the full-year and half-year results has been scheduled in 2022.

ANNUAL GENERAL MEETING

Bakkavor's AGM provides the Group Board with the opportunity to communicate with private and institutional investors, with time being set aside 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 20 May 2021 AGM were passed. As recommended by the 2018 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.

This year's AGM on 25 May 2022 will be in person and by webcast. We are keeping arrangements relating to the AGM under review as COVID-19 health guidance evolves. Shareholders will be notified beforehand of the revised arrangements via our website and by a Company announcement. The Group Board therefore recommends that shareholders check the Company's website regularly and monitor Company announcements for any updates. The Group Board considers the AGM to be an important opportunity to engage with our shareholders.

Full details of the 25 May 2022 AGM arrangements and the resolutions to be proposed at the AGM, as well as 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 can be found on our website at www.bakkavor.com/en/investors/default.aspx.

RESEARCH AND DEVELOPMENT

Developing innovative new products remains core to the business. The Group uses insights gained through analysis of consumer research and data, as well as knowledge of food trends sourced from around the world, to build an understanding of what consumers want. Teams of chefs and product development experts continuously create and test recipes and work collaboratively with the Group's commercial and marketing teams to ensure products taste great, are commercially viable and reinforce the Group's market-leading position. Further information can be found on pages 7 and 8 and Note 2 to the Group Financial Statements.

COLLEAGUES WITH DISABILITIES

Applications for employment by prospective colleagues with disabilities are given full and fair consideration having regard to candidates' aptitudes and abilities. On occasions where existing colleagues develop a disability, every effort is made to ensure that their employment with the Group continues, and any reasonable adjustments are made. Appropriate training is also provided.

It is the policy of the Group that the training, career development and promotion of colleagues with disabilities should, as far as possible, be the same as that of our other colleagues. For further information, see the Responsible Recruitment and Employment section on page 46.

COLLEAGUE ENGAGEMENT

Open and constructive communication allows us to hear views from all levels of the business, as well as keep our c.19,000 colleagues informed and updated. We perform a Group-wide Employee Engagement Survey every 18 months and our latest survey, completed in May 2021, had a response rate of 83%. The 2021 survey provided valuable insights that were analysed at local, site, business and Group level and have fed into localised action plans and informed our colleague priorities.

Outside of the engagement survey, our UK GEF and SEF create an open and regular channel of communication between colleagues and management with outputs and discussion points shared back in Management Board and Group Board meetings to ensure colleagues' interests are taken into consideration when decisions are made. SEF representatives are elected by peers and play a vital role in sharing best practices across sites, supporting local causes and charities, providing support and seeking advice, and the GEF comprises SEF representatives at Group level. Following the COVID-19 pandemic, we sought feedback from the UK GEF, SEF and our office-based colleagues on how the business can adapt our ways of working and we responded to this by introducing a number of initiatives such as increased flexibility in shift patterns, part-time work and working from home.

Colleagues are provided with information on matters of concern to them in their work through regular briefing meetings and internal publications. To inform colleagues of the economic and financial factors affecting the business, regular updates are posted on the intranet and engagement events are hosted with members of the Management Board.

In 2021, Jill Caseberry was appointed as the Company's designated workforce engagement Non-executive Director, providing colleagues with a direct channel of communication and an independent champion at Group Board level. Jill has had an opportunity to engage with colleagues by attending a session with the UK GEF and SEF via video conference in July 2021 and a further in-person session in February 2022.

For further information, see pages 45 to 48 and 103.

DIRECTORS' REPORT
CONTINUED

GREENHOUSE GAS EMISSIONS, ENERGY CONSUMPTION AND ENERGY EFFICIENCY ACTION

Please see the Task Force on Climate-related Financial Disclosures section on pages 54 to 61.

CHARITABLE DONATIONS

Bakkavor believes in giving back to those communities in which we operate. Our Charity and Political Donations Policy sets out the ways charitable giving may be channelled: through monetary and product donations, supporting our colleagues in their fundraising efforts and advocating skills and volunteering events, where appropriate. We never use charitable donations as a means to gain improper influence and all monies given to charity in Bakkavor's name are subject to due process. Bakkavor does not give financial donations or support to political individuals, representatives, parties or causes in any country in which we operate.

For further information see page 48.

POLITICAL DONATIONS

No political donations were made during the financial year.

FINANCIAL INSTRUMENTS

Please refer to Note 27 to the Group Financial Statements.

FINANCIAL RISK MANAGEMENT

Please refer to Note 27 to the Group Financial Statements.

GOING CONCERN

The Directors have reviewed the historical trading performance of the Group and the forecasts through to March 2023. The Directors, in their detailed consideration of going concern, have reviewed the Group's future revenue projections and cash requirements, which they believe are based on prudent interpretations of market data and past experience.

The Directors have also considered the Group's level of available liquidity under its financing facilities. The Directors have carried out a robust assessment of the significant risks currently facing the Group. This has included scenario planning on the implications of further inflation and continuing labour availability issues. The Group has also modelled the potential impact of lower sales volumes from further COVID-19 restrictions, supply chain issues and reduced consumer demand in response to increasing retail prices.

Having taken these factors into account, under either scenario, the Directors consider that adequate headroom is available based on the forecasted cash requirements of the business. At the date of this report, the Group has complied in all respects with the terms of its borrowing agreements, including its financial covenants, and forecasts to continue to do so in the future. Consequently, the Directors consider that the Company and the Group have adequate resources to meet their liabilities as they fall due through to March 2023. For this reason, they continue to adopt the going concern basis in preparing the Financial Statements.

Please see principal risks and uncertainties on pages 78 to 86 and Note 2 of the Financial Statements for further detail including the potential impact of COVID-19 on the business.

VIABILITY STATEMENT

In line with Provision 31 of the 2018 Code, the Group Board has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three-year period to the end of 2024. For further information see page 87 and the subsequent events mentioned below.

DIRECTORS' STATEMENT AS TO THE DISCLOSURE OF INFORMATION TO THE AUDITORS

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 Auditors in connection with preparing its report, of which the Auditors are 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 Auditors are aware of that information. This confirmation is given pursuant to s418 of the Act and should be interpreted in accordance with and subject to these provisions.

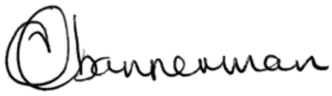
SUBSEQUENT EVENTS

On 1 March 2022 the Group extended the maturity date of £430 million of its core debt facilities from March 2025 to March 2026.

Please refer to Note 34 to the Group Financial Statements.

The Directors' Report was approved by the Group Board on 7 March 2022.

By order of the Group Board



Annabel Tagoe-Bannerman
Group General Counsel and Company Secretary
Bakkavor Group plc
7 March 2022

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

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 have prepared the group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and the company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). The group has also prepared financial statements in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

Under company law, 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 company and of the profit or loss of the group for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union have been followed for the group financial statements and United Kingdom Accounting Standards, comprising FRS 101, have been followed for the company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

The directors are 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 also responsible for keeping adequate accounting records that are sufficient to show and explain the group's and company's transactions and 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.

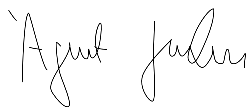
The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

DIRECTORS' CONFIRMATIONS

The directors consider that the Annual Report and accounts, taken as a whole, is fair, balanced, and understandable and provides the information necessary for shareholders to assess the group's and company's position and performance, business model and strategy.

Each of the directors, whose names and functions are listed in Annual Report & Accounts confirm that, to the best of their knowledge:

- the group financial statements, which have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the group;
- the company financial statements, which have been prepared in accordance with United Kingdom Accounting Standards, comprising FRS 101, give a true and fair view of the assets, liabilities and financial position of the company; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the group and company, together with a description of the principal risks and uncertainties that it faces.



Agust Gudmundsson
Chief Executive Officer
7 March 2022

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BAKKAVOR GROUP PLC

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

In our opinion:

- Bakkavor Group plc's group financial statements and company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the company's affairs as at 25 December 2021 and of the group's profit and the group's cash flows for the 52 week period then ended;
- the group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report & Accounts (the "Annual Report"), which comprise: the Consolidated Statement of Financial Position and the Company Statement of Financial Position as at 25 December 2021; the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Cash Flows, the Consolidated Statement of Changes in Equity and the Company Statement of Changes in Equity for the period then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit and Risk Committee.

Separate opinion in relation to international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union

As explained in note 2 to the financial statements, the group, in addition to applying international accounting standards in conformity with the requirements of the Companies Act 2006, has also applied international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

In our opinion, the group financial statements have been properly prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in the Report of the Audit and Risk Committee, we have provided no non-audit services to the company or its controlled undertakings in the period under audit.

OUR AUDIT APPROACH

Overview

Audit scope

- Full scope audit procedures performed over the complete financial information of eight components, and specified procedures over a further seven components.
- Central audit procedures performed by the group audit team which included the audit of the recoverability of goodwill, the audit of the group's current and deferred income taxes, the audit of group share-based payment schemes, the audit of the defined benefit pension scheme and the audit of the group consolidation.
- Audit coverage from full scope and specified procedures over 77% of group revenue.
- Full scope audit procedures performed over the company financial information.

Key audit matters

- Completeness and accuracy of customer deduction accruals (Group).
- Recoverability of goodwill in relation to the US Cash Generating Unit (Group).
- Recoverability of Shares in Group undertakings and Loans to Group undertakings (Company).

Materiality

- Overall group materiality: £4.0 million (2020: £3.8 million) based on 5% of profit before tax on underlying activities (2020: a three-year average of profit before tax on underlying activities).
- Overall company materiality: £4.1 million (2020: £3.6 million) based on 1% of net assets.
- Performance materiality: £3.0 million (2020: £2.9 million) (Group) and £3.1 million (2020: £2.7 million) (Company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the 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) identified by the auditors, including 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, and any comments we make on the results of our procedures thereon, 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.

This is not a complete list of all risks identified by our audit.

Recoverability of Shares in Group undertakings and Loans to Group undertakings (Company) is a new key audit matter this year. Presentation and disclosure of exceptional items (Group) and The impact of COVID-19 (Group and Company), which were key audit matters last year, are no longer included because there are no exceptional items presented in the current year, and the impact of COVID-19 is considered to be reduced to a sufficiently low level. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Completeness and accuracy of customer deduction accruals (Group)	
Refer to the accounting policies in note 2 and the Key sources of estimation uncertainty in note 3 of the Consolidated Financial Statements.	At the planning stage of the audit, we assessed the design and implementation of controls over the customer deduction process.
As described in notes 2 and 3 of the Consolidated Financial Statements, revenue from the sale of goods is measured net of deductions relating to commercial incentive arrangements in the form of volume-related rebates, marketing and promotional funding, discounts or lump sum incentives ("customer deductions"), when it is highly probable that they will not reverse.	We understood and assessed the group's revenue recognition accounting policies, including the recognition of customer deductions.
The complexity of customer deductions depends on the specifics of each arrangement. Some arrangements relating to specific products or promotions are simple whereas other arrangements may cover multiple manufacturing sites, multiple products or span period ends. These are more complex and can require estimation of the amount of deductions ultimately claimed. Management judgement is required when assessing if unclaimed historical deduction accruals are no longer required.	We performed risk assessment analytics by reviewing the customer deductions as a percentage of revenue by customer. We also performed gross margin analysis year on year to identify any unusual or unexpected trends.
We performed a detailed risk assessment on each of our in scope components to determine the inherent risk level for the two key assertions of completeness and accuracy, and tailored the extent of our audit procedures accordingly. We deemed three components to contain a significant risk over the accuracy and completeness of customer deduction accruals because of the number and variety of contractual arrangements and the inherent uncertainty in future outcome. Of those three components, two components also contained a significant risk over the accuracy of a specific other sales accrual given it's inherent risk. Testing to address these significant risk assertions was performed to a high level of assurance. Management estimates the level of claims from customers based on historical experience and the specific terms of individual agreements. Key inputs into these estimates include forecast sales volumes (where agreements are not coterminous), estimated consumer uptake (in relation to promotional funding) and ongoing negotiations with customers.	We assessed the completeness and accuracy of amounts recognised in the income statement and accrued at the period end:

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BAKKAVOR GROUP PLC CONTINUED

Key audit matter	How our audit addressed the key audit matter
Refer to the Report of the Audit and Risk Committee for discussion of this key audit matter.	• We obtained management's schedule of customer deduction accruals which analyses the opening accrual to closing accrual with reference to amounts claimed, amounts accrued in the period and amounts released. We verified the mathematical accuracy of the schedule; • We retrospectively reviewed management's historical accuracy of accruals recorded in the previous year by comparison to the amounts subsequently settled during the current year and challenged management if any amounts had not been adjusted. An immaterial difference was identified and reported to the Audit and Risk Committee; • For a sample of customer deductions recorded in the period, we agreed key inputs and assumptions in the calculation to supporting documentation. This included third party support such as subsequent settlement amounts, or where unsettled, contracts or correspondence with the customer. Where relevant we verified the sales value or volume to which underlying contract terms had been applied. We recalculated the income statement and accrual amounts to test mathematical accuracy; • We selected a sample of prior year accruals settled in the period by agreeing to debit notes or payments made to the customer; • We performed a review on aged balances released in the period to verify that they met the Group's accounting policy regarding passage of time; and • In order to test for completeness we reviewed commercial agreements for undisclosed volume rebates, promotional funding arrangements or marketing support. We performed detailed testing to ensure that expected promotional accruals had been recognised based on promotions seen in store or online. We compared information obtained at site level with group level discussions. We performed substantive testing of post year end payments and credit notes issued to ensure none related to unrecognised deduction accruals. We reviewed local management's debit note reconciliation to ensure all related deduction accruals were correctly recognised. We also assessed the adequacy of the disclosure provided in note 2 and note 3 of the Consolidated Financial Statements in relation to the relevant accounting standards. We found no material differences as a result of the audit procedures performed.
Recoverability of goodwill in relation to the US Cash Generating Unit (Group)	
Refer to the accounting policies in note 2, the Key sources of estimation uncertainty in note 3 and note 13 of the Consolidated Financial Statements.	At the planning stage of the audit, we assessed the design and implementation of controls over the impairment review process.
Goodwill must be tested for impairment on at least an annual basis. The determination of recoverable amount, being the higher of value-in-use and fair value less costs of disposal, requires estimations on the part of management in both identifying and then valuing the relevant group's cash-generating units ("CGUs").	As part of our audit of management's impairment assessment and underlying discounted cash flow model:
The CGU with the lowest level of headroom in the impairment test was the US CGU. On 25 December 2021, the Group held goodwill of £46.3 million and other assets of £64.0 million in relation to this CGU.	• We obtained the impairment model prepared by management. Management has extended the term of the model to ten years in order to include the impact of climate change, see below. We have tested the technical and arithmetic accuracy to ensure that it had been prepared in line with the guidance provided in IAS 36;
We focused on this area as management judgement is required to establish the recoverable amount using value in use models. This includes judgement in the selection of assumptions used to estimate forecast future cash flows such as EBITDA growth, and in the selection of appropriate discount and long-term growth rates.	• We reviewed the climate related assumptions within the model. Our procedures included, but were not limited to:

Key audit matter	How our audit addressed the key audit matter
Management has included climate related assumptions within the model for the first time. Management has engaged an expert, Willis Towers Watson ("WTW") to calculate estimated decarbonisation costs under a number of modelled scenarios. The term of the model has then been extended to ten years after which these decarbonisation costs have been included, based on management's assessment of the most likely scenario. An estimation of capital expenditure for climate related matters has also been included within the model.	– Assessing the competence of management experts, WTW;
The key assumptions within the models are all subjective and susceptible to management bias and execution risk and could lead to an impairment charge if incorrect. Refer to the Report of the Audit and Risk Committee for discussion of this key audit matter.	– Considering the decarbonisation scenario assumptions used by WTW to calculate decarbonisation costs which include up to two degrees celsius climate change scenario; – Corroborating carbon pricing assumptions to an independent external source, the International Energy Agency; and – Performing sensitivity analysis using more challenging scenarios and increased decarbonisation costs to test that the model is not sensitive to these assumptions. • We used internal valuation experts to determine whether management's discount rate was within an acceptable range and concluded that it was appropriate; • We used internal valuation experts to determine if long-term growth rates used in the impairment model were consistent with external sources of evidence; • We identified key cash flow forecast assumptions to which the model was sensitive and focussed our efforts on these assumptions. We challenged the basis of the short-term forecasts used in the model, focussing on growth plans in 2022. This included, but was not limited to: – agreeing forecasts to Board approved plans; – reviewing management's historical accuracy of forecasting; – reviewing capital expenditure forecasts to Board approved plans. We challenged management on capital expenditure which was expansionary in nature and confirmed that appropriate central overlays had been included to remove associated incremental EBITDA; – assessing the revenue growth rates with reference to historical growth in the US business, actual performance of the US CGU in 2021 and 2022 to date and versus key customer growth plans; – verifying forecast margins with reference to historical growth in the US business and actual performance of the US CGU in 2021 and 2022 to date; – agreeing 2022 volumes to third party evidence; and – performing detailed testing to substantiate price increases. We performed a cross check between the value-in-use calculation for the full business to the market capitalisation of the company. We reperformed management's sensitivity analysis by reducing cash inflows through constraining both revenue growth and EBITDA margin, and separately sensitised the discount rate and long-term growth rates to understand the impact that possible changes could have. We confirmed these are mathematically accurate. We concluded that no impairment charge is required and based on the testing and reasonable downside scenarios modelled, concurred with the disclosures included in the financial statements.
Recoverability of Shares in Group undertakings and Loans to Group undertakings (Company)	
Refer to the accounting policies in note 2, note 5 and note 6 of the Company Financial Statements.	To address the risk identified;
Bakkavor Group plc holds a direct undertaking in Bakkavor Holdings Limited, and through this entity an indirect investment in the group as a whole. The valuation of the Shares in Group undertakings is significant to the company only balance sheet. The company also holds a loan to Group undertakings. Given the magnitude of both the Shares in Group undertakings and the Loans to Group undertakings we have considered the risk of impairment of these assets.	• We obtained a schedule of Shares in Group undertakings and ensured this reconciled to financial statements;

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BAKKAVOR GROUP PLC CONTINUED

Key audit matter	How our audit addressed the key audit matter
	• We challenged management's assertion that no impairment triggers were identified that would necessitate a full impairment review to be performed. We performed a review of net assets of the subsidiary entity against the carrying value, considered the external market and economic factors and also our review of the discounted cash flow models prepared for the purpose of testing goodwill for impairment. (Please see our Key Audit Matter in respect of the Recoverability of goodwill in relation to the US Cash Generating Unit). Based on these procedures we concluded that there were no triggers that would indicate the directors were required to perform a full impairment test of the Shares in Group undertakings carrying value; • We have performed a reconciliation of the Loans to Group undertakings and ensured this agrees with the counterparty; • We reviewed the application of management's impairment methodology in assessing the recoverability of intercompany receivables and the level of related expected credit loss provisions. The outstanding balances are considered to have a low credit risk and therefore the associated loss allowance is limited to 12 months' expected losses. We have reviewed Loan to Group undertakings terms and assessed the nature of the counterparty's liquid assets and have concluded that there is no indication of material impairment to the receivable balances; and • We also assessed the adequacy of the disclosure provided in note 2, note 5 and note 6 of the Company Financial Statements in relation to the relevant accounting standards. We found no exceptions as a result of our testing and consider the Recoverability of Shares in Group undertakings and Loans to Group undertakings to be appropriate.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

The group is structured according to manufacturing sites, each of which is a component and which maintains separate accounting records and controls. The group financial statements is a consolidation of reporting units, comprising the manufacturing sites and centralised functions.

In establishing the overall approach to the group audit, we determined the type of work that needed to be performed at each reporting component. Two reporting components were determined to be financially significant due to their relative contribution to profit before tax on underlying activities or revenue. Full scope audit procedures were performed over these components. No reporting components were determined to be significant based on their risk profile.

We identified a further six UK components which, in our view, required a full audit of their complete financial information in order to ensure that sufficient appropriate audit evidence was obtained. We also identified certain large or material balances in other components where specified procedures were performed. These included multiple balances within the US component, cash balances within the Chinese sub-consolidation and a UK holding company, accounts payable and inventory within the Inbound Logistics component, tangible fixed assets and provisions within two central property components, external borrowings and related interest expenses within the finance component to which specific audit procedures were performed to ensure that we had sufficient audit coverage over the relevant financial statement line items.

The group consolidation, financial statement disclosures and a number of centralised functions were audited by the group audit team. These included the audit of the recoverability of goodwill, investments and intercompany debtors, the audit of the group's current and deferred income taxes, the audit of group share-based payment schemes and the audit of the defined benefit pension scheme.

We also performed group level analytical procedures on all of the remaining out of scope components to identify whether any further audit evidence was needed. This resulted in no additional substantive testing.

This audit work resulted in coverage over 77% of group revenues.

The company was also subject to a full scope audit by the group audit team.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

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

	Financial statements – Group	Financial statements – Company
Overall materiality	£4.0 million (2020: £3.8 million).	£4.1 million (2020: £3.6 million).
How we determined it	5% of profit before tax on underlying activities (2020: a three-year average of profit before tax on underlying activities).	1% of net assets.
Rationale for benchmark applied	Based on the benchmarks used in the Annual Report, profit before tax on underlying activities is a key measure used by the shareholders in assessing the performance of the group and is a generally accepted auditing benchmark. We have changed our materiality benchmark from a three year average of underlying profit before tax to in year underlying profit before tax as we consider this is the most relevant measure of the ongoing performance of the Group. We previously used the three year average as a benchmark as a result of the impact of fluctuating business performance due to US start up losses and COVID-19.	We believe that net assets is an appropriate benchmark for a non-trading holding company.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £0.9 million and £2.3 million.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2020: 75%) of overall materiality, amounting to £3.0 million (2020: £2.9 million) for the group financial statements and £3.1 million (2020: £2.7 million) for the company financial statements.

In determining the performance materiality, we considered a number of factors – the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls – and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit and Risk Committee that we would report to them misstatements identified during our audit above £0.2 million (group audit) (2020: £0.2 million) and £0.2 million (company audit) (2020: £0.2 million) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

CONCLUSIONS RELATING TO GOING CONCERN

Our evaluation of the directors' assessment of the group's and the company's ability to continue to adopt the going concern basis of accounting included:

- We obtained management's paper that supports the Board's assessment and conclusions with respect to the disclosures provided around going concern and viability;
- We discussed with management the assumptions applied in the going concern review so we could understand and challenge the rationale for those assumptions, using our knowledge of the business, the sector and wider commentary available from key customers. We verified key assumptions to supporting documentation;
- We reviewed monthly trading results to January 2022, and weekly trading results thereafter for 2022 and compared to management's original budget and revised forecasts, and considered the impact of these actual results on the future forecast period; and
- We reviewed management's severe but plausible downside sensitivity scenarios. We assessed the availability of liquid resources under the base case and downside scenario modelled by management, and the associated covenant tests applied. We reviewed management's identified mitigating actions to confirm they are within management's control, albeit we note that no significant mitigations are required.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the group's and the company's ability to continue as a going concern.

In relation to the directors' reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

REPORTING ON OTHER INFORMATION

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information, which includes reporting based on the Task Force on Climate-related Financial Disclosures ("TCFD") recommendations. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BAKKAVOR GROUP PLC CONTINUED

misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the period ended 25 December 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Directors' Remuneration

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

CORPORATE GOVERNANCE STATEMENT

The Listing Rules require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the company's compliance with the provisions of the UK Corporate Governance Code specified for our review. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement, included within the Governance section is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement in 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 company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the group's and company's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the directors' statement regarding the longer-term viability of the group was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the group and company and their environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the group's and company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit and Risk Committee.

We have nothing to report in respect of our responsibility to report when the directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities in Respect of the Financial Statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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 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 company or to cease operations, or have no realistic alternative but to do so.

Auditors' 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 auditors' 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to the Listing Rules, Pensions legislation, Tax legislation, Employment regulation, Health and Safety legislation and other legislation specific to the industry in which the group operates (including Food Safety legislation), and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Discussions with management, internal audit and the group's legal counsel, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Evaluation of management's controls designed to prevent and detect irregularities;
- Assessment of matters reported on the group's whistleblowing helpline, and the results of management's investigation of such matters;
- Review of minutes of meetings of those charged with governance;
- Review of internal audit reports;
- Review of key correspondence with regulatory authorities;
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to calculation of customer deduction accruals and the recoverability assessment for goodwill (see related key audit matters); and
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations which impact revenue, which could manipulate the financial performance of the business.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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 auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

OTHER REQUIRED REPORTING

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit and Risk Committee, we were appointed by the members on 23 May 2019 to audit the financial statements for the year ended 28 December 2019 and subsequent financial periods. The period of total uninterrupted engagement is 3 years, covering the years ended 28 December 2019 to 25 December 2021.

Sandeep Dhillon (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
7 March 2022

CONSOLIDATED INCOME STATEMENT
52 WEEKS ENDED 25 DECEMBER 2021

£ million	Note(s)	52 weeks ended 25 December 2021 Underlying activities	Exceptional items[1]	Total	52 weeks ended 26 December 2020 Underlying activities	Exceptional items[1]	Total
Continuing operations							
Revenue	4,5	**1,871.6**	**–**	**1,871.6**	1,793.5	–	1,793.5
Cost of sales		**(1,330.9)**	**–**	**(1,330.9)**	(1,279.4)	–	(1,279.4)
Gross profit		**540.7**	**–**	**540.7**	514.1	–	514.1
Distribution costs		**(75.1)**	**–**	**(75.1)**	(70.5)	–	(70.5)
Other administrative costs (net)	6	**(363.9)**	**–**	**(363.9)**	(360.1)	(21.6)	(381.7)
Share of results of associates after tax	17	**0.3**	**–**	**0.3**	0.1	–	0.1
Operating profit/(loss)		**102.0**	**–**	**102.0**	83.6	(21.6)	62.0
Finance costs	9	**(17.1)**	**–**	**(17.1)**	(19.3)	(1.7)	(21.0)
Other gains and (losses)	10	**(3.5)**	**–**	**(3.5)**	3.2	–	3.2
Profit/(loss) before tax	6	**81.4**	**–**	**81.4**	67.5	(23.3)	44.2
Tax (charge)/credit	11	**(24.6)**	**–**	**(24.6)**	(14.5)	4.4	(10.1)
Profit/(loss) for the period		**56.8**	**–**	**56.8**	53.0	(18.9)	34.1
Earnings per share							
Basic	12			**9.8p**			5.9p
Diluted	12			**9.6p**			5.8p

1 The Group presents its income statement with three columns. The Directors consider that the underlying activities are more representative of the ongoing operations and key metrics of the Group. Details of exceptional items can be found in Note 7 and include material items that are non-recurring, significant in nature and are important to users in understanding the business, including restructuring costs, accelerated amortisation of financing fees and impairment of assets. In addition, the Group uses further Alternative Performance Measures which can be found in Note 36.

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
52 WEEKS ENDED 25 DECEMBER 2021

£ million	Note	52 weeks ended 25 December 2021	52 weeks ended 26 December 2020
Profit for the period		**56.8**	34.1
Other comprehensive income/(expense)			
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gain on defined benefit pension schemes	32	**24.5**	0.4
Tax relating to components of other comprehensive income	11	**(6.6)**	(0.1)
		17.9	0.3
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		**2.6**	(2.6)
Gain/(loss) on cash flow hedges		**2.0**	(1.1)
Hedging gains reclassified to profit or loss		**0.4**	0.2
Tax relating to components of other comprehensive (expense)/income	11	**(0.2)**	0.2
		4.8	(3.3)
Total other comprehensive income/(expense)		**22.7**	(3.0)
Total comprehensive income		**79.5**	31.1

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 25 DECEMBER 2021

£ million	Note	25 December 2021	26 December 2020
Non-current assets			
Goodwill	13	**650.1**	649.6
Other intangible assets	14	**1.7**	2.2
Property, plant and equipment	15	**545.2**	535.3
Interests in associates and other investments	17	**11.8**	12.2
Deferred tax asset	23	**9.9**	13.0
Retirement benefit asset	32	**37.2**	11.2
Derivative financial instruments	22	**2.6**	–
		1,258.5	1,223.5
Current assets			
Inventories	18	**70.8**	63.8
Trade and other receivables	19	**142.8**	136.4
Cash and cash equivalents	20	**31.1**	24.8
Current tax asset		**–**	0.1
Derivative financial instruments	22	**0.3**	0.6
		245.0	225.7
Total assets		**1,503.5**	1,449.2
Current liabilities			
Trade and other payables	25	**(390.8)**	(367.6)
Current tax liabilities		**(1.3)**	–
Borrowings	21	**(3.0)**	(23.2)
Lease liabilities	24	**(10.8)**	(11.1)
Provisions	26	**(8.5)**	(11.0)
Derivative financial instruments	22	**(1.7)**	(0.9)
		(416.1)	(413.8)
Non-current liabilities			
Borrowings	21	**(317.6)**	(331.4)
Lease liabilities	24	**(73.8)**	(70.9)
Provisions	26	**(14.3)**	(14.4)
Derivative financial instruments	22	**(0.4)**	(0.9)
Deferred tax liabilities	23	**(40.6)**	(19.7)
		(446.7)	(437.3)
Total liabilities		**(862.8)**	(851.1)
Net assets		**640.7**	598.1
Equity			
Called up share capital	28	**11.6**	11.6
Merger reserve	28	**(130.9)**	(130.9)
Hedging reserve	28	**1.7**	(0.7)
Translation reserve	28	**27.2**	24.8
Retained earnings		**731.1**	693.3
Total equity		**640.7**	598.1

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 7 March 2022. They were signed on behalf of the Board of Directors by:

Agust Gudmundsson
Chief Executive Officer

Ben Waldron
Chief Financial Officer

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
52 WEEKS ENDED 25 DECEMBER 2021

£ million	Note	Called up share capital	Merger reserve	Hedging reserve	Translation reserve	Retained earnings	Total equity
Balance at 29 December 2019		11.6	(130.9)	–	27.2	657.8	**565.7**
Profit for the period		–	–	–	–	34.1	**34.1**
Other comprehensive (expense)/income for the period		–	–	(0.7)	(2.6)	0.3	**(3.0)**
Total comprehensive (expense)/income for the period		–	–	(0.7)	(2.6)	34.4	**31.1**
Credit for share-based payments	31	–	–	–	–	1.2	**1.2**
Deferred tax	11	–	–	–	0.2	(0.1)	**0.1**
Balance at 26 December 2020		11.6	(130.9)	(0.7)	24.8	693.3	**598.1**
Profit for the period		–	–	–	–	56.8	**56.8**
Other comprehensive income for the period		–	–	2.2	2.6	17.9	**22.7**
Total comprehensive income for the period		–	–	2.2	2.6	74.7	**79.5**
Reclassification		–	–	0.2	(0.2)	–	**–**
Dividends	28	–	–	–	–	(38.5)	**(38.5)**
Credit for share-based payments	31	–	–	–	–	2.3	**2.3**
Cash-settlement of share based payments	31	–	–	–	–	(0.6)	**(0.6)**
Deferred tax	11	–	–	–	–	(0.1)	**(0.1)**
Balance at 25 December 2021		**11.6**	**(130.9)**	**1.7**	**27.2**	**731.1**	**640.7**

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

CONSOLIDATED STATEMENT OF CASH FLOWS
52 WEEKS ENDED 25 DECEMBER 2021

£ million	Note	52 weeks ended 25 December 2021	52 weeks ended 26 December 2020
Net cash generated from operating activities	29	**144.0**	88.5
Investing activities:			
Dividends received from associates	17	**0.7**	0.1
Purchases of property, plant and equipment		**(59.8)**	(56.4)
Proceeds on disposal of property, plant and equipment		**4.2**	0.1
Net cash used in investing activities		**(54.9)**	(56.2)
Financing activities:			
Dividends paid	28	**(38.5)**	–
Increase in borrowings		**28.1**	334.1
Repayment of borrowings		**(60.9)**	(355.9)
Principal elements of lease payments	24	**(11.7)**	(11.4)
Net cash used in financing activities		**(83.0)**	(33.2)
Net increase/(decrease) in cash and cash equivalents		**6.1**	(0.9)
Cash and cash equivalents at beginning of period		**24.8**	25.9
Effect of foreign exchange rate changes		**0.2**	(0.2)
Cash and cash equivalents at end of period		**31.1**	24.8

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
52 WEEKS ENDED 25 DECEMBER 2021

1. GENERAL INFORMATION
Bakkavor Group plc is a public company, limited by shares, incorporated and domiciled in England, United Kingdom (Company number: 10986940, registered office: Fitzroy Place, 5th Floor, 8 Mortimer Street, London, England, W1T 3JJ). The Company's Ordinary shares are traded on the London Stock Exchange.

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 and US where products are primarily sold through high-street supermarkets and China where products are primarily sold through foodservice operators.

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:

IFRS 17 Insurance Contracts

Amendments to IFRS 16 COVID-19 Related Rent Concessions beyond 30 June 2021

Amendments to IAS 1 Presentation of financial statements on classification of liabilities

Annual Improvements to IFRS Standards 2018-2020 Cycle

Narrow scope amendments to IFRS 3, IAS 16 and IAS 37

Narrow scope amendments to IAS 1, IAS 8 and IFRS Practice statement 2

The Directors anticipate that the adoption of these Standards and Interpretations will have no material impact on the Financial Statements of the Group.

The Group has elected to early adopt amendments to IFRS 9, IAS 39, IFRS 7 – Interest Rate Benchmark Reform Phase 2 and IFRS 16 – COVID-19 Related Rent Concessions as issued in August 2020. In accordance with the transition provisions, the amendments have been adopted retrospectively to hedging relationships and financial instruments. Comparative amounts have not been restated, and there was no impact on the current period opening reserves amounts on adoption.

Effect of IBOR reform
During the period SONIA (Sterling Overnight Index Average) replaced GBP LIBOR. GBP LIBOR is a 'term rate', which means that it is published for a borrowing period (such as three months or six months) and is 'forward looking', because it is published at the beginning of the borrowing period. SONIA is a 'backward-looking' rate, based on overnight rates from actual transactions, and it is published at the end of the overnight borrowing period. Furthermore, LIBOR includes a credit spread over the risk-free rate, which SONIA does not.

The Group completed its GBP LIBOR transition project during September of 2021. As part of the transition the Group has applied a credit spread adjustment to SONIA to determine the term-rate applicable to the Group going forward. This transition impacted the Group's floating-rate borrowings (detailed in Note 21) and interest rate swaps (detailed in Note 27). As at 25 December 2021 there were no financial instruments, that previously referenced GBP LIBOR, that had not been transitioned to SONIA. None of the financial instruments impacted by this change were derecognised because of adopting SONIA, due to benchmark reform, described below.

Amendments to IFRS 9 and IFRS 7 – Interest Rate Benchmark Reform – Phase 1, which became effective for periods commencing on or after 1 January 2020, were early adopted by the Group in the prior period.

Hedge relationships
The 'Phase 2' amendments address issues arising during interest rate benchmark reform, including specifying when the 'Phase 1' amendments will cease to apply, when hedge designations and documentation should be updated, and when hedges of the alternative benchmark rate of the hedged risk are permitted.

The 'Phase 1' amendments provided temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by IBOR reform. The reliefs had the effect that IBOR reform should not generally cause hedge accounting to terminate prior to contracts being amended. However, any hedge ineffectiveness continued to be recorded in the consolidated income statement. Furthermore, the amendments set out triggers for when the reliefs would end, which included the uncertainty arising from interest rate benchmark reform no longer being present.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

1. GENERAL INFORMATION CONTINUED

For the year ended 25 December 2021, the Group has adopted the following hedge accounting reliefs provided by 'Phase 2' of the amendments:

- Hedge designation: When the Phase 1 amendments ceased to apply, the Group amended its hedge designation to reflect changes which are required by IBOR reform by:
  - designating an alternative benchmark rate (contractually or non-contractually specified) as a hedged risk;
  - amending the description of the hedged item, including the description of the designated portion of the cash flows or fair value being hedged; or
  - amending the description of the hedging instrument.

These amendments to the hedge documentation do not require the Group to discontinue its hedge relationships.

- Amounts accumulated in the cash flow hedge reserve: When the Group amended its hedge designation, as described above, the accumulated amount outstanding in the cash flow hedge reserve was deemed to be based on the alternative benchmark rate, SONIA.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

The Financial Statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. Where the fiscal year 2021 is quoted in these Financial Statements this relates to the 52-week period ended 25 December 2021. The fiscal year 2020 relates to the 52-week period ended 26 December 2020. The Consolidated Financial Statements comprise the Financial Statements of the parent undertaking and its subsidiary undertakings (the "Group"), together with the Group's share of the results of associated undertakings comprising a 52 or 53-week period ending on the Saturday of or immediately before 31 December.

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

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

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

The principal accounting policies adopted are set out below and have been applied consistently except that the Group now applies hedge accounting for certain derivatives as set out below.

Going concern

The Directors have reviewed the historical trading performance of the Group and the forecasts through to March 2023.

The Directors, in their detailed consideration of going concern, have reviewed the Group's future revenue projections and cash requirements, which they believe are based on prudent interpretations of market data and past experience. The Directors have also considered the Group's level of available liquidity under its financing facilities. The Directors have carried out a robust assessment of the significant risks currently facing the Group. This has included scenario planning on the implications of further inflation and continuing labour availability issues. The Group has also modelled the potential impact of lower sales volumes from further COVID restrictions, supply chain issues and reduced consumer demand in response to increasing retail prices.

Having taken these factors into account, under either scenario, the Directors consider that adequate headroom is available based on the forecasted cash requirements of the business. At the date of this report, the Group has complied in all respects with the terms of its borrowing agreements, including its financial covenants, and forecasts to continue to do so in the future.

Consequently, the Directors consider that the Company and the Group have adequate resources to meet their 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.

Subsidiaries

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

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

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

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

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

Business combinations

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

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

When the consideration in a business combination includes an asset or liability resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition date fair value and included as part of the consideration transferred. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. The subsequent accounting for changes in fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39 or IAS 37, as appropriate.

Where a business combination is achieved in stages, the Group's previously-held interests in the acquired entity are 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 'Business combinations'.

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 'Investments in associates' below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Investments in associates

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.

Revenue recognition

The Group sells fresh prepared foods and fresh produce, and revenue is recognised as the performance obligation to deliver goods to customers is satisfied and is recorded based on the amount of consideration expected to be received in exchange for satisfying the performance obligation. Revenue on the sale of goods is recognised when control of the goods has passed to the buyer upon delivery to the customer and represents the value of sales to customers net of customer deductions and discounts, VAT and other sales-related taxes. Many of the Group's revenue contracts include an element of variable consideration, such as customer deductions for rebate arrangements or other incentives to customers. The arrangements can take the form of volume rebates, marketing fund contributions or promotional fund contributions. The Group recognises revenue net of customer deductions and discounts in the period in which the arrangement applies only when it is highly probable a significant reversal in the cumulative amount of revenue will not occur. Volume based rebates are calculated on the Group's estimate of rebates expected to be paid to customers using the 'most likely amount' in line with IFRS 15 requirements, whereas fixed rebates are accounted for as a reduction in revenue over the life of the contract. When the Group has satisfied its performance obligations, the customer will make payment in line with agreed payment terms. The Group does not expect to have any contracts where the period between transfer of the promised goods to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction price for the time value of money. For goods returned, the Group will recognise an obligation and reduce revenue accordingly at the time of notification.

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

From the start of 2019 the Group adopted IFRS 16 Leases and transitioned to this standard by applying the modified retrospective asset equals liability approach for lease commitments in place at that time.

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 has applied 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.

Under IFRS 16, all leases (except as noted below), are accounted for as follows:

- Recognise the right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of future lease payments. Future lease payments are discounted at the Group's weighted average incremental borrowing rate;
- Use the lease term specified in the contract. Where there are termination options in the contract it is assumed that these will not be exercised and when there are extension options the Group assumes that these will be exercised; and
- Recognise depreciation of right-of-use assets and interest on lease liabilities in the consolidated income statement.

Lease incentives (e.g. rent-free 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 and any impairment is provided for by writing down the asset value.

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 over the lease term as permitted by IFRS 16 paragraph 6. This expense is presented within other expenses in the consolidated income statement.

In the statement of cash flows, the Group as a lessee will classify:

- Cash payments for the principal portion of the lease liability within financing activities;
- Cash payments for the interest portion of the lease liability, applying the requirements in IAS 7 Statement of Cash Flows for interest paid; and
- Short-term lease payments, payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability within operating activities.

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 on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the income statement for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the income statement for the period.

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

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

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

Research and development

Research and development costs comprise all directly attributable costs necessary to create and produce new and updated products. Expenditure on research and development, where development costs do not meet the recognition criteria of IAS 38, is recognised as an expense in the period in which it is incurred.

Exceptional items

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

Operating profit

Operating profit is stated after charging exceptional items, impairment of assets, profit/loss on the disposal of subsidiaries and associates and share of results of associates, but before investment revenue, finance costs and other gains and losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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 costs 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 recognised for goods or services acquired in a share-based transaction when the goods are obtained or the service received. The credit is booked as either a liability or in 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.

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.

The useful economic lives 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.

Depreciation is charged so as to write off the cost or valuation of assets, other than land or assets 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

Depreciation is charged to Other administrative costs in the income statement.

Assets purchased through a lease agreement are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

Right-of-use assets are depreciated over the term of the relevant lease.

Some fixtures and equipment, that comprise improvements or additions to an existing building, may be depreciated over the same period as the related building, which could be longer than five years.

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 which 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. The assets are amortised on a straight-line basis over their determined useful life.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Impairment

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'.

Please refer to Note 13 for details of the goodwill impairment assessment.

Inventories

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

Financial assets

Classification

From 30 December 2018, the Group classifies its financial assets in the following measurement categories:

- Those to be measured subsequently at fair value (either through other comprehensive income ("OCI") or through profit or loss); and
- Those to be measured at amortised cost.

For assets measured at fair value, gains and losses are recorded either in profit or loss or in OCI.

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVPL"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Subsequent measurement depends on the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, are measured at amortised cost. Impairment losses are presented as a separate line item in the income statement.
- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses, which are recognised in the income statement.
- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. Any fair value movement is recognised in the income statement and presented net within other gains and (losses) in the period in which it arises.

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. The Group classifies its trade receivable balances dependent on its objectives with respect to the collection of contractual cash flows. The Group operates non-recourse debtor factoring arrangements with four of its significant customers. Receivables generated from goods sold to these customers are subsequently measured at fair value through the income statement, as the objective of management is to sell the receivables (Held to sell business model). All other trade receivables are held with the objective of collecting the contractual cash flows, and so these are measured subsequently at amortised cost using the effective interest method (Held to collect business model).

Other receivables that have fixed or determinable payments that are not quoted in an active market are classified as financial assets and 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.

Impairment

The Group assesses, on a forward-looking basis, the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. The expected loss rates are based on the payment profiles of sales before 25 December 2021 or 26 December 2020 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

Trade receivables and contract assets are written off where there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 90 days past due.

Impairment losses on trade receivables and contract assets are presented in other administrative costs within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

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

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 FVPL. The effective interest method is a method of both calculating the amortised cost of a debt instrument and 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.

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).

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 enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts and interest rate swaps. Further details of derivative financial instruments are disclosed in Notes 22 and 27. 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.

Derivatives are recognised initially at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. Derivatives are not offset in the financial statements unless the Group has both a legally enforceable right and intention to offset. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not due to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

The Group designates interest rate swap derivatives as hedging instruments in respect of interest rate risk in cash flow hedges. From 27 December 2020, the Group has designated all new forward foreign exchange contracts as cash flow hedges and hedge accounting is applied to these instruments.

The hedging relationship is documented at inception. This documentation identifies the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how hedge effectiveness will be measured throughout their duration. These hedges have been designated as cash flow hedges and are expected, at inception and on an ongoing basis, to be highly effective in offsetting changes in the cash flows of hedged items.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

The effective portion of changes in the fair value of derivatives and other qualifying hedging instruments that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of 'hedging reserve', limited to the cumulative change in fair value of the hedged item from inception of the hedge. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the 'other gains and losses' line item.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item.

The Group discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria. This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively. Any gain or loss recognised in other comprehensive income and accumulated in the hedging reserve at that time remains in equity and is reclassified to profit or loss when the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in the cash flow hedge reserve is reclassified immediately to profit or loss.

Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

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. Where a lease contract is onerous, the onerous provision is calculated as the costs of meeting the obligations under the contract excluding lease rentals that are included as part of the lease liability.

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 possibility of an outflow is more than remote. 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

Presentation of exceptional items

The Group's financial performance is analysed in two ways: underlying performance (which does not include exceptional items) and exceptional items that are material and not expected to reoccur. Judgement is required as to whether items should be presented as exceptional or underlying. Exceptional items will typically include material items that are significant in nature or non-recurring and are important to users in understanding the business. Where disclosed, items have been considered by management to meet this definition. For further details please see Note 7.

Key sources of estimation uncertainty

Pensions

The Group maintains a defined benefit pension plan for which it has recorded a pension asset. The pension asset is based on an actuarial valuation that requires a number of assumptions including discount rate, inflation 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 32.

Impairment of goodwill

The recoverable amount of CGUs or groups of CGUs are determined based on the higher of net realisable value and value in use calculations. The carrying amount of the US CGU is £46.3 million (2020: £45.8 million) and the assumptions used to calculate its recoverable amount are considered to be a key source of estimation uncertainty. The key assumptions 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. The Group has considered the impact of the assumptions used in the US CGU calculation and has conducted sensitivity analysis on the impairment test of the US 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 estimates 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. Accrued balances are reassessed quarterly to confirm they continue to meet the requirements for recognition on an ongoing basis. As there is some judgement involved in the estimation of accruals, the Group has conducted a sensitivity analysis and a movement equivalent to 0.5% of revenue would result in a credit or debit to the Consolidated Income Statement of £9.4 million (2020: £9.0 million).

4. SEGMENTAL INFORMATION

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

As at the statement of financial position date, the Group is organised into three regions, the UK, US and China, and prepares and markets fresh prepared foods and produce in each region.

During the previous year the Group made the decision to consider the US and China business as two separate operating segments, where they had previously been considered a single operating segment. The Group's management accounts, which show the information on which the CODM bases strategic decisions, now highlight the disaggregated figures for all the key lines of information. Given the now differing economic situations of the two international businesses, key decisions on allocating resources, such as capital expenditure, are now made on a UK/US/China basis.

The Group manages the performance of its businesses through the use of 'Adjusted operating profit', as defined in Note 36.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

4. SEGMENTAL INFORMATION CONTINUED

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

£ million	Note	UK	US	China	Un-allocated	Total
Revenue	36	**1,592.4**	**180.1**	**99.1**	**–**	**1,871.6**
Adjusted EBITDA	36	**149.3**	**15.7**	**1.8**	**–**	**166.8**
Depreciation		**(52.0)**	**(6.4)**	**(6.8)**	**–**	**(65.2)**
Amortisation		**(0.1)**	**(0.4)**	**–**	**–**	**(0.5)**
Share scheme charges		**(2.3)**	**–**	**–**	**–**	**(2.3)**
Profit on disposal of property, plant and equipment		**2.9**	**–**	**–**	**–**	**2.9**
Share of results of associates		**–**	**–**	**0.3**	**–**	**0.3**
Adjusted operating profit/(loss)	36	**97.8**	**8.9**	**(4.7)**	**–**	**102.0**
Exceptional items		**–**	**–**	**–**	**–**	**–**
Operating profit/(loss)		**97.8**	**8.9**	**(4.7)**	**–**	**102.0**
Finance costs						**(17.1)**
Other gains and (losses)						**(3.5)**
Profit before tax						**81.4**
Tax						**(24.6)**
Profit for the period						**56.8**
Other segment information:						
Capital additions		**59.6**	**9.0**	**6.8**	**–**	**75.4**
Interests in associates		**–**	**–**	**11.7**	**–**	**11.7**
Total assets		**1,238.7**	**144.1**	**86.7**	**34.0**	**1,503.5**
Non-current assets		**1,068.9**	**120.2**	**66.8**	**2.6**	**1,258.5**

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

The following table provides an analysis of the Group's segmental information for the period to 26 December 2020:

£ million	Note	UK	US	China	Un-allocated	Total
Revenue	36	1,566.6	146.5	80.4	–	1,793.5
Adjusted EBITDA	36	145.3	8.0	(1.1)	–	152.2
Depreciation		(53.0)	(6.8)	(6.3)	–	(66.1)
Amortisation		(0.1)	(0.4)	–	–	(0.5)
Share scheme charges		(1.2)	–	–	–	(1.2)
Loss on disposal of property, plant and equipment		(0.3)	(0.2)	(0.4)	–	(0.9)
Share of results of associates		–	–	0.1	–	0.1
Adjusted operating profit/(loss)	36	90.7	0.6	(7.7)	–	83.6
Exceptional items – Impairment	7	(16.7)	–	–	–	(16.7)
Exceptional items – Other	7	(4.9)	–	–	–	(4.9)
Operating profit/(loss)		69.1	0.6	(7.7)	–	62.0
Finance costs						(21.0)
Other gains and (losses)						3.2
Profit before tax						44.2
Tax						(10.1)
Profit for the period						34.1
Other segment information:						
Capital additions		58.8	3.0	6.6	–	68.4
Interests in associates		–	–	12.1	–	12.1
Total assets		1,204.0	136.9	82.9	25.4	1,449.2
Non-current assets		1,035.7	121.9	65.9	–	1,223.5

All of the Group's revenue is derived from the sale of goods in 2020. There were no inter-segment revenues. The un-allocated assets of £25.4 million relate to cash and cash equivalents which cannot be readily allocated because of the Group cash-pooling arrangements that are in place to provide funds to businesses across the Group.

Major customers

In 2021, the Group's four largest customers accounted for 74.0% (2020: 75.2%) of the Group's total revenue from continuing operations. These customers accounted for 87.0% (2020: 86.7%) of total UK revenue from continuing operations. The Group does not enter into long-term contracts with its retail customers.

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

	2021	2020
Customer A	**33.4%**	35.7%
Customer B	**20.3%**	20.0%
Customer C	**11.5%**	11.1%
Customer D	**8.8%**	8.4%

5. REVENUE

The Group derives all revenue from the sale of goods in the following geographic locations:

£ million	2021	2020
Continuing operations		
UK	**1,592.4**	1,566.6
US	**180.1**	146.5
China	**99.1**	80.4
	1,871.6	1,793.5

Upon completion of delivery (the performance obligation), the terms of the order allow 30 to 75 days (2020: 35 to 75 days) for payment, dependent on the relevant customers' payment terms. The Group has in place trade receivable factoring arrangements. These are non-recourse arrangements which were applicable to 67.5% (2020: 69.4%) of the Group's total sales. These arrangements allow the Group to choose to factor the receivable for approved invoices and receive payment ahead of the agreed terms on a non-recourse basis.

6. PROFIT BEFORE TAX

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

£ million	Note	2021	2020
Depreciation of property, plant and equipment:			
• Owned		**53.2**	53.8
• Leased		**12.0**	12.3
Research and development costs		**8.6**	7.0
Cost of inventory recognised as an expense		**836.0**	809.5
Net movement of inventory provision recognised as (gain)/expense		**(0.2)**	4.1
Amortisation of intangible assets		**0.5**	0.5
Exceptional items	7	**–**	21.6
(Profit)/loss on disposal of property, plant and equipment		**(2.9)**	0.9
Share scheme charges	31	**2.3**	1.2
Foreign exchange (gains)/losses	10	**(0.5)**	0.2
Staff costs	8	**539.2**	514.0

Other administrative costs (net) are comprised of:

£ million	2021	2020
Other administrative costs	**(371.1)**	(361.5)
Other operating charges	**(0.3)**	(1.1)
Total operating costs	**(371.4)**	(362.6)
Other operating income	**7.5**	2.5
Other administrative costs (net)	**(363.9)**	(360.1)

Other operating charges and income relate to an insurance claim which resulted in a net profit of £7.2 million (2020: £1.4 million). This included proceeds that were used to replace damaged assets which resulted in a gain on disposal of fixed assets of £1.6 million (2020: loss of £0.2 million).

The analysis of the Auditors' remuneration is as follows:

£ million	2021	2020
The audit of the Company's Consolidated Financial Statements	**0.3**	0.2[1]
The audit of the Company's subsidiaries pursuant to legislation	**0.7**	0.5
Total audit fees	**1.0**	0.7

1 The prior year figure has been restated to reflect audit fee amendments relating to the audit of the prior year Financial Statements.

Non-audit fees of £40,000 (2020: £40,000) were paid to the Group's Auditors for permitted services.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

7. EXCEPTIONAL ITEMS

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

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

£ million	2021	2020
Restructuring costs, impairment and onerous contract provision	–	21.6
Operating loss	–	21.6
Finance costs	–	1.7
Loss before tax	–	23.3
Tax on exceptional items	–	(4.4)
Loss after tax	–	18.9

2021

No exceptional costs have been incurred by the Group.

2020

The Group incurred £23.3 million of costs presented as exceptional items in 2020, and an after tax charge of £18.9 million. The closure of two salads factories in Alresford and Spalding led to cash restructuring charges of £4.9 million, with a further £8.2 million impairment charge in respect of their tangible fixed assets. Following a review of assets, the Group also incurred a further impairment charge of £8.5 million in the UK business for assets that are now either redundant or related to products that have been discontinued in the year. In addition, the Group incurred £1.7 million of accelerated amortisation of refinancing fees following the Group's refinancing of its core debt facilities on 18 March 2020.

8. STAFF COSTS

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

	2021 Number	2020 Number
Production	**15,578**	15,938
Management and administration	**2,521**	2,488
Sales and distribution	**873**	892
	18,972	19,318

Their aggregate remuneration comprised:

£ million	Note	2021	2020
Wages and salaries		**471.1**	446.3
Social security and other costs		**55.9**	55.0
Other pension costs	32	**12.2**	12.7
		539.2	514.0

During 2020 the Group furloughed a number of its employees across its UK sites for varying periods of time, under the UK Government's Coronavirus Job Retention Scheme. Amounts received by the Group constitute a government grant and, as of 26 December 2020, all conditions of the scheme were met. As such in 2020, the Group recognised £12.8 million as a reduction to staff costs, in respect of this grant. The Group did not use the UK Government's Coronavirus Job Retention Scheme during 2021.

Details of the emoluments paid to Directors are included from pages 124 to 141 in the Directors' Remuneration Report and in Note 33.

9. FINANCE COSTS

£ million	Note	2021	2020
Interest on borrowings		**14.2**	18.2
Interest on lease liabilities		**2.7**	2.7
Unwinding of discount on provisions	26	**0.2**	0.1
Total		**17.1**	21.0

There were no borrowing costs included in the cost of qualifying assets during 2020 or 2021. Borrowing costs included in the cost of qualifying assets during prior years arose within the general borrowing pool and were calculated by applying a capitalisation rate of 3.0% to expenditure on such assets.

Amounts included in the cost of qualifying assets have been capitalised under IAS 23 and are therefore subject to deferred tax; the deferred tax charge to income was £nil (2020: £0.1 million).

Interest on borrowings for 2021 includes no exceptional costs (2020: £1.7 million in respect of the accelerated amortisation of previous financing fees following the Group's refinancing of its debt facilities on 18 March 2020).

10. OTHER GAINS AND (LOSSES)

£ million	2021	2020
Foreign exchange gains/(losses)	**0.5**	(0.2)
Change in the fair value of derivative financial instruments	**(4.0)**	3.4
	(3.5)	3.2

11. TAX

£ million	Note	2021	2020
Current tax:			
Current period		**7.6**	12.1
Prior period adjustment		**0.2**	0.5
Total current tax charge		**7.8**	12.6
Deferred tax:			
Deferred tax relating to the origination and reversal of temporary differences in the period		**7.6**	(5.2)
Deferred tax relating to changes in tax rates		**7.9**	1.5
Prior period adjustment		**1.3**	(0.4)
Unrecognised tax loss originating in the current period		**–**	1.6
Total deferred tax charge/(credit)	23	**16.8**	(2.5)
Tax charge for the period		**24.6**	10.1

The Group tax charge for the period was £24.6 million (2020: £10.1 million) which represents an effective tax rate of 30.2% (2020: 22.9%) on profit before tax of £81.4 million (2020: £44.2 million). Tax is calculated using prevailing statutory rates in the territories in which we operate however most of the Group's profits are earned in the UK where the statutory tax rate is 19% for 2021 (2020: 19%).

The effective tax rate is 11.2% higher (2020: 3.9%) than the UK statutory tax rate of 19% (2020: 19%). The main item which increases the effective rate by 9.7% is a deferred tax charge arising in connection with the rate at which we provide for deferred tax assets and liabilities. This is following the Government announcement on 3 March 2021 and the substantive enactment of this measure on 24 May 2021, that the UK corporation tax rate will increase to 25% effective from 1 April 2023. We have therefore valued deferred tax assets and liabilities at 25% at the balance sheet date, up from 19% at 26 December 2020.

Excluding exceptional items and other adjusting items the effective tax rate on underlying activities was 29.7% (2020: 21.7%) (see Note 36).

In 2021 the tax risk provision was £1 million (2020: £1 million) because it is considered unlikely that the tax authorities will take a different approach to any material calculations of tax liability.

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

	2021 £ million	2021 %	2020 £ million	2020 %
Profit before tax:	**81.4**	**100.0**	44.2	100.0
Tax charge at the UK corporation tax rate of 19% (2020: 19%)	**15.5**	**19.0**	8.4	19.0
Non-deductible expenses	**(1.8)**	**(2.0)**	–	–
Prior period adjustment	**1.5**	**1.7**	0.1	0.2
Tax effect of losses carried forward not recognised	**0.7**	**0.9**	1.6	3.9
Unprovided deferred tax assets now recognised	**(0.1)**	**(0.2)**	–	–
Overseas taxes at different rates	**0.9**	**1.1**	(1.5)	(3.5)
Deferred tax change in rate	**7.9**	**9.7**	1.5	3.5
Tax charge and effective tax rate for the period	**24.6**	**30.2**	10.1	22.9

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

11. TAX CONTINUED

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

	2021 £ million	2020 £ million
Tax relating to components of other comprehensive income/(expense):		
Deferred tax:		
Remeasurements on defined benefit pension scheme actuarial gain	**4.6**	0.1
Deferred tax rate change on defined benefit pension scheme actuarial gain	**2.0**	–
Cash flow hedges and cost of hedging	**0.2**	(0.2)
Deferred tax on share schemes	**0.1**	0.1
	6.9	–
Tax relating to components of other comprehensive income/(expense):	**6.8**	(0.1)
Tax relating to share-based payments recognised directly in equity:	**0.1**	0.1
	6.9	–

As disclosed in the prior year accounts, HMRC has previously raised an enquiry in the UK concerning the structure used to fund overseas investment during the two periods ended 30 December 2017 and 29 December 2018 and if successful, approximately £0.3 million additional UK tax would have been payable for those years. During the year ended 25 December 2021, however, the HMRC enquiry was settled resulting in no additional UK tax being due. Since no provision had been made for the potential £0.3 million, no further provisions or releases are included in these accounts in respect of 2017 and 2018. In addition to this, for each of the following three years up to and including the current period ended 25 December 2021, there is uncertainty in connection with the applicability of the UK tax rules to the structure which could lead to additional UK tax payable. This is a complex area with a range of possible outcomes and judgement has been used in calculating the provision. For these reasons it cannot be known with certainty whether additional amounts of UK tax will be due, however, we consider it is unlikely that there will be material amounts due over and above the provisions currently held.

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	2021	2020
Profit for the period	**56.8**	34.1

Number of shares '000	2021	2020
Weighted average number of Ordinary shares	**579,426**	579,426
Effect of potentially dilutive Ordinary shares	**9,775**	4,193
Weighted average number of Ordinary shares including dilution	**589,201**	583,619

	2021	2020
Basic earnings per share	**9.8p**	5.9p
Diluted earnings per share	**9.6p**	5.8p

The Group calculates Adjusted basic earnings per Ordinary share and details of this can be found in Note 36, Alternative performance measures.

13. GOODWILL

£ million	
Cost	
At 29 December 2019	703.2
Exchange differences	(1.1)
At 26 December 2020	702.1
Exchange differences	1.0
At 25 December 2021	**703.1**
Accumulated impairment losses	
At 29 December 2019	(52.0)
Exchange differences	(0.5)
At 26 December 2020	(52.5)
Exchange differences	(0.5)
At 25 December 2021	**(53.0)**
Carrying amount	
At 25 December 2021	**650.1**
At 26 December 2020	649.6

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	**25 December 2021**	26 December 2020
UK	**603.8**	603.8
US	**46.3**	45.8
China	**–**	–
	650.1	649.6

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 (2020: £nil).

The Group is committed to achieving net zero carbon emissions across our Group operations by 2040. For the current year impairment review, management have also included the future costs and capital expenditure required to meet this commitment in its value-in-use calculations and sensitivity analyses.

The key assumptions used in the impairment reviews for the CGUs that held goodwill at 25 December 2021 and 26 December 2020 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 8.4% (2020: 7.9%) for the UK and 8.9% for the US (2020: 8.6%).
- Growth rates: The revenue growth rates are based on management growth forecasts based on industry experience. 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 the next four years (2020: three years), as determined by the business units, and extrapolated cash flows for the following years based on an estimated revenue growth rate ranging from 2% to 3% whilst maintaining margins at the 2023 budget levels, through to 2030, at which point a terminal value is applied. This terminal value includes an estimate of carbon costs. Cash flows are then extrapolated using a perpetuity growth rate of 2.0% (2020: 2.0%) for the UK and 2.3% for the US (2020: 2.3%).

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

£ million	UK	US
Headroom of impairment test based on management assumptions	466.5	166.6

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13. GOODWILL CONTINUED

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 US CGU, which has lower levels of headroom, are shown below, none of which indicate an impairment is likely:

- The pre-tax discount rate for the US CGU is 8.9%. If the pre-tax discount rate for this CGU were to be increased by 0.5% from 8.9% to 9.4% then the headroom would be reduced to £146.7 million. An increase to the pre-tax discount rate from 8.9% to 13.9% would result in no headroom.
- The perpetuity growth rate included in the US CGU future cash flows is 2.3%. If the perpetuity growth rate was to decrease to 1.3% it would still leave headroom of £132.4 million.
- A key sensitivity for the Group is Adjusted EBITDA, whether through the loss of revenue or from lower operating margins. If Adjusted EBITDA over the five-year forecast period were to be reduced by 10% in the US CGU then this would result in the headroom being reduced to £125.4 million.

14. OTHER INTANGIBLE ASSETS

£ million	Customer relationships
Cost	
At 29 December 2019	89.1
Exchange differences	(0.2)
At 26 December 2020	88.9
Exchange differences	–
At 25 December 2021	**88.9**
Accumulated amortisation and impairment	
At 29 December 2019	(86.4)
Charge for the period	(0.5)
Exchange differences	0.2
At 26 December 2020	(86.7)
Charge for the period	(0.5)
Exchange differences	–
At 25 December 2021	**(87.2)**
Carrying amount	
At 25 December 2021	**1.7**
At 26 December 2020	2.2

15. PROPERTY, PLANT AND EQUIPMENT

£ million	Land and buildings	Plant and machinery	Fixtures and equipment	Total
Cost				
At 29 December 2019	379.7	528.8	91.8	1,000.3
Reclassification	(2.1)	2.1	–	–
Additions	14.6	41.7	12.0	68.3
Disposals	(2.1)	(12.5)	(3.7)	(18.3)
Exchange differences	(1.0)	(0.3)	0.1	(1.2)
At 26 December 2020	389.1	559.8	100.2	1,049.1
Reclassification	(0.3)	(2.4)	1.7	(1.0)
Additions	18.6	39.4	17.4	75.4
Disposals	(2.8)	(5.5)	(1.5)	(9.8)
Exchange differences	1.9	1.8	0.3	4.0
At 25 December 2021	**406.5**	**593.1**	**118.1**	**1,117.7**
Accumulated depreciation and impairment				
At 29 December 2019	(134.1)	(254.7)	(57.8)	(446.6)
Charge for the period	(18.8)	(35.5)	(11.8)	(66.1)
Impairment	(3.9)	(15.0)	(0.2)	(19.1)
Disposals	2.0	11.5	3.6	17.1
Exchange differences	0.5	0.4	–	0.9
At 26 December 2020	(154.3)	(293.3)	(66.2)	(513.8)
Reclassification	0.1	0.6	0.3	1.0
Charge for the period	(20.0)	(33.0)	(12.2)	(65.2)
Impairment	(1.3)	–	–	(1.3)
Disposals	1.8	5.4	1.3	8.5
Exchange differences	(0.6)	(0.9)	(0.2)	(1.7)
At 25 December 2021	**(174.3)**	**(321.2)**	**(77.0)**	**(572.5)**
Carrying amount				
At 25 December 2021	**232.2**	**271.9**	**41.1**	**545.2**
At 26 December 2020	234.8	266.5	34.0	535.3

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15. PROPERTY, PLANT AND EQUIPMENT CONTINUED

Included within Land and buildings is freehold land held at historic cost of £11.5 million (2020: £11.8 million). Freehold land is not depreciated.

The Group has split the net book value of property, plant and equipment relating to leases between amounts previously recognised as finance leases under IAS 17 and amounts recognised as right-of-use assets under IFRS 16. This allows management to review performance excluding IFRS 16, as set out in Note 36, Alternative performance measures.

The carrying value of the Group's plant and machinery includes an amount of £2.8 million (2020: £3.4 million) in respect of assets held under leases previously recognised as finance leases before the introduction of IFRS 16.

The carrying value of the Group's land and buildings and plant and machinery includes an amount of £73.2 million (2020: £71.7 million) in respect of assets held under IFRS 16 Leases. Further details of these leases are disclosed in Note 24.

The carrying value of the Group's plant and machinery includes an amount of £30.9 million (2020: £21.6 million) in respect of assets held as security under Asset Finance Facilities. Further details of these facilities are disclosed in Note 21.

At 25 December 2021, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £5.2 million (2020: £1.9 million).

Assets are not depreciated until they are brought into use. At 25 December 2021 a total of £44.6 million (2020: £21.4 million) of other assets were in progress and had not been brought into use.

During 2021, an impairment to land and buildings of £1.3 million (2020: £2.3 million) arose from fully writing down the right-of-use assets held by a Group business which has ceased trading.

During 2020, the Group impaired £1.6 million of land and buildings excluding right-of-use assets, £15.0 million of plant and machinery and £0.2 million of fixtures and equipment. These impairment charges arose from site closures and a review of assets no longer in use, due to products which had been discontinued during the year. This resulted in redundant, non-moveable, specialist assets which were assessed as having £nil value in use and are not saleable due to their specialist nature. 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. The impairments charged in that year of £19.1 million wholly related to the UK sector, of which £16.8 million were included within Other administrative costs as exceptional items (Note 7).

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.

17. INTERESTS IN ASSOCIATES AND OTHER INVESTMENTS

£ million	2021	2020
Name of associate		
La Rose Noire Limited	**11.2**	11.7
Patisserie et Chocolat Limited	**0.5**	0.4
Total associates	**11.7**	12.1
Other investments	**0.1**	0.1
Total associates and other investments	**11.8**	12.2

Details of the associated undertakings of the Group at 25 December 2021 and 26 December 2020 were as follows:

	Place of registration and operation	Principal activity	Proportion of Ordinary shares 2021	Proportion of Ordinary shares 2020	Method of accounting
Name of associate					
La Rose Noire Limited	Hong Kong	Producer of bakery and pastry products	**45%**	45%	Equity
Patisserie et Chocolat Limited	Hong Kong	Producer of bakery and pastry products	**45%**	45%	Equity

The following tables summarise the financial information of the Group's material associate, La Rose Noire Limited, as included in its own financial statements:

Associate's income statement

£ million	2021	2020
Revenue	**9.4**	9.1
Profit/(loss) before taxation	**0.5**	(0.2)
Taxation	**(0.1)**	–
Profit/(loss) after taxation	**0.4**	(0.2)
Group's share of profit/(loss) after taxation (45%)	**0.2**	(0.1)

Associate's statement of financial position

£ million	25 December 2021	26 December 2020
Non-current assets	0.9	1.2
Current assets	5.5	6.1
Current liabilities	(1.2)	(1.1)
Net assets	5.2	6.2
Group's share of net assets (45%)	2.3	2.8
Goodwill on acquisition	8.9	8.9
Carrying amount of associate at end of period	11.2	11.7

Carrying amount of associate

£ million	25 December 2021	26 December 2020
At beginning of period	11.7	12.3
Share of profit/(loss) after taxation of associate	0.2	(0.1)
Exchange differences	–	(0.4)
Dividends received	(0.7)	(0.1)
At end of period	11.2	11.7

The following table summarises the carrying amount of the Group's immaterial associate, Patisserie et Chocolat Limited:

£ million	25 December 2021	26 December 2020
Associates that are not individually material		
At beginning of period	0.4	0.2
Share of profit after tax	0.1	0.2
At end of period	0.5	0.4

Other investments amount to £0.1 million at 25 December 2021 (26 December 2020: £0.1 million).

18. INVENTORIES

£ million	25 December 2021	26 December 2020
Raw materials and packaging	60.7	54.3
Work-in-progress	2.0	2.3
Finished goods	8.1	7.2
	70.8	63.8

There is no material difference between the book value and replacement cost of inventories.

19. TRADE AND OTHER RECEIVABLES

£ million	25 December 2021	26 December 2020
Amounts receivable from trade customers	118.2	115.2
Expected credit loss	(2.8)	(1.6)
Net amounts receivable from trade customers	115.4	113.6
Other receivables	17.2	14.9
Prepayments	10.2	7.9
	142.8	136.4

During the period, the Group has continued to operate trade receivable factoring arrangements. These are non-recourse arrangements and therefore amounts are de-recognised from trade receivables. At 25 December 2021 £118 million was drawn under factoring facilities (2020: £106 million) representing cash collected before it was contractually due from the customer.

As at 25 December 2021, the Group's Amounts receivable from trade customers includes £53.8 million (2020: £56.6 million), which could be factored under the non-recourse trade receivable factoring arrangement.

The average credit period taken on sales of goods is 21 days (2020: 19 days). An expected credit loss allowance has been made for estimated irrecoverable amounts from the sale of goods of £2.8 million (2020: £1.6 million). Expected credit loss allowances against receivables are made on a specific basis based on objective evidence and previous default experience as well as with reference to assumptions about the risk of default and expected future loss rates. 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, while assumptions about the risk of default remain unchanged.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

19. TRADE AND OTHER RECEIVABLES CONTINUED

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	25 December 2021	26 December 2020
Not past due	**106.8**	104.4
Past due by 1 – 30 days	**7.0**	7.2
Past due by 31 – 60 days	**0.8**	1.1
Past due by 61 – 90 days	**0.4**	0.5
Past due by more than 90 days	**0.4**	0.4
	115.4	113.6

There was no impact from trade receivables renegotiated in 2021 that would have otherwise been past due or impaired (2020: no impact).

The four major customers of the Group, representing 74.0% (2020: 75.2%) 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 expected credit loss for the Group's trade receivables:

£ million	25 December 2021	26 December 2020
Balance at beginning of the period	**(1.6)**	(1.6)
Allowances recognised against receivables	**(2.5)**	(0.9)
Amounts written off as uncollectible during the period	**0.6**	0.3
Amounts recovered during the period	**0.6**	0.4
Allowance reversed	**0.1**	0.2
Balance at end of the period	**(2.8)**	(1.6)

20. CASH AND CASH EQUIVALENTS

£ million	25 December 2021	26 December 2020
Cash and cash equivalents	**31.1**	24.8

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.

21. BORROWINGS

The interest rates and currency profile of the Group's borrowings at 25 December 2021 were as follows:

£ million	Currency	Facility amount £ million	Amount drawn down at year end £ million	Interest rate	Non-utilisation fee	Maturity date
Term Loan	GBP	225.0	225.0	SONIA[2] plus a margin of 2.25%	N/A	Mar 2025[1]
Revolving Credit Facility ("RCF")	GBP	230.0	65.0	SONIA[2] plus a margin of 2.25%	0.7875%	Mar 2025[1]
Asset Finance Facility	GBP	21.7	21.7	Fixed interest rate	N/A	Aug 2027
Asset Finance Facility	GBP	12.1	12.1	Fixed interest rate	N/A	Jun 2028
Total		**488.8**	**323.8**			

1 £12.4 million of the term loan and £12.6 million of the RCF mature in March 2024.

2 The interest rate for these facilities includes a Credit Spread Adjustment following the transition from LIBOR to SONIA in September 2021.

On 18 March 2020, the Group completed a refinancing of its core debt facilities through a new term loan and Revolving Credit Facility totalling £455 million. The refinancing resulted in the addition of new lenders to the Group. The new facilities were due to mature in March 2024, with an option to extend the tenure by a further two years subject to lender approval. £430 million of these facilities were extended in March 2021, to mature in March 2025.

The Group's total banking facilities amount to £455.0 million (2020: £512.5 million) comprising (i) £225.0 million in term loans (2020: £282.5 million term loan), with £12.4 million maturing in March 2024 and £212.6 million in March 2025 and (ii) £230.0 million Revolving Credit Facilities ("RCF") (2020: £230.0 million RCF), which includes an overdraft and money market facility of £20.0 million (2020: £20.0 million) and further ancillary facilities of £13.3 million (2020: £13.3 million). For the RCF, £12.6 million matures in March 2024 and £217.4 million in March 2025. The bank facilities are unsecured. These banking facilities are subject to covenant agreements including the Group maintaining a minimum interest cover of 4.0x and not exceeding an adjusted leverage of 3.0x. In addition, the Group has access to £8.4 million of local overdraft facilities in the US and China which are unsecured.

In September 2021 the Group transitioned from LIBOR to SONIA, as described in Note 1. £455.0 million of the total £488.8 million of facilities were subject to this transition.

The Asset Finance Facility is made up of two separate facilities which are secured against specific items of plant and machinery. Firstly, a £25.0 million facility, which could be drawn against up to August 2020, of which the Group initially drew down £24.9 million with £21.7 million outstanding at the end of 2021. No further draw down can be made against this facility. The facility has been drawn in tranches, with each tranche being repaid on a quarterly basis over a period of seven years, and the weighted average interest rate for the facility at 25 December 2021 was 2.41% (2020: 2.41%). The interest rate is fixed at the prevailing rate on commencement of the loan tranche. Secondly, the Group has drawn down £13.1 million during the year under a separate asset financing facility with £12.1 million outstanding at the end of 2021. No further draw down can be made against this facility. The facility has been drawn in tranches, with each tranche being repaid on a monthly basis over a period of seven years, and the weighted average interest rate for the facility at 25 December 2021 is 3.20% (2020: n/a). The interest rate is fixed at the prevailing rate on commencement of the loan tranche.

During 2021, the Group repaid two term loans with total capital repayments being £57.5 million. £37.5 million related to a term loan which was due to mature in June 2024 but which was repaid early with £17.5 million paid in April 2021 and £20.0 million in September 2021. The remaining £20.0 million was paid in November 2021 when an additional term loan matured.

£ million	25 December 2021	26 December 2020
Bank loans	**320.6**	354.6
	320.6	354.6
Borrowings repayable as follows:		
On demand or within one year	**3.0**	23.2
In the second year	**2.9**	1.2
In the third to fifth years inclusive	**303.1**	318.5
Over five years	**11.6**	11.7
	320.6	354.6
Analysed as:		
Amount due for settlement within 12 months (shown within current liabilities)	**3.0**	23.2
Amount due for settlement after 12 months	**317.6**	331.4
	320.6	354.6

As at 25 December 2021 and 26 December 2020, all of the Group's borrowings were denominated in Sterling.

	2021 %	2020 %
The weighted average interest rates paid were as follows:		
Bank loans and overdrafts	**2.54**	2.68

Apart from the Asset Finance Facility, interest on the Group's term loan and other borrowings are at floating rates, thus exposing the Group to cash flow interest rate risk. This risk is mitigated using interest rate swaps as set out in Note 27.

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

£ million	25 December 2021	26 December 2020
Fair value of the Group's borrowings	**323.8**	356.6

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

21. BORROWINGS CONTINUED

Net debt is the net of cash and cash equivalents, prepaid fees to be amortised over the term of outstanding borrowings, outstanding borrowings, interest accrued on borrowings and lease liabilities and is as follows:

£ million	25 December 2021	26 December 2020
Analysis of net debt		
Cash and cash equivalents	**31.1**	24.8
Borrowings	**(4.1)**	(22.3)
Interest accrual	**(0.2)**	(2.3)
Unamortised fees	**1.3**	1.4
Lease liabilities	**(10.8)**	(11.1)
Debt due within one year	**(13.8)**	(34.3)
Borrowings	**(319.7)**	(334.3)
Unamortised fees	**2.1**	2.9
Lease liabilities	**(73.8)**	(70.9)
Debt due after one year	**(391.4)**	(402.3)
Group net debt	**(374.1)**	(411.8)

22. DERIVATIVE FINANCIAL INSTRUMENTS

£ million	25 December 2021	26 December 2020
Foreign currency contracts – designated in a hedging relationship	**0.1**	–
Interest rate contracts – designated in a hedging relationship	**2.5**	–
Included in non-current assets	**2.6**	–
Foreign currency contracts – held at fair value through profit and loss	**–**	0.6
Foreign currency contracts – designated in a hedging relationship	**0.3**	–
Included in current assets	**0.3**	0.6
Foreign currency contracts – held at fair value through profit and loss	**(0.9)**	(0.9)
Foreign currency contracts – designated in a hedging relationship	**(0.8)**	–
Included in current liabilities	**(1.7)**	(0.9)
Foreign currency contracts – designated in a hedging relationship	**(0.4)**	–
Interest rate contracts – designated in a hedging relationship	**–**	(0.9)
Included in non-current liabilities	**(0.4)**	(0.9)
Total	**0.8**	(1.2)

Derivative financial instruments are subject to enforceable master netting agreements, however are not set off on the balance sheet. Under the terms of these arrangements, only where certain credit events occur (such as default), will the net position owing/receivable to a single counterparty in the same currency be taken as owing and all the relevant arrangements terminated.

Further details of derivative financial instruments are provided in Note 27.

23. 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	IAS 23 capitalised interest	Fair value gains	Intangibles	Provisions	Retirement benefit obligations	Share scheme	Overseas tax losses and accrued interest	US goodwill	Total
At 29 December 2019	(26.4)	(0.4)	0.7	(0.1)	0.4	(1.6)	0.8	25.3	(7.9)	(9.2)
Credit/(charge) to income	1.1	(0.1)	(0.7)	–	0.1	(0.4)	(0.5)	2.3	(0.9)	0.9
Exchange differences	–	–	–	–	–	–	–	1.3	0.3	1.6
Charge to equity	–	–	0.2	–	–	(0.1)	(0.1)	–	–	–
At 26 December 2020	**(25.3)**	**(0.5)**	**0.2**	**(0.1)**	**0.5**	**(2.1)**	**0.2**	**28.9**	**(8.5)**	**(6.7)**
Credit/(charge) to income	(13.7)	–	0.2	(0.1)	0.2	(0.6)	0.6	(2.6)	(0.8)	(16.8)
Exchange differences	(0.1)	–	–	–	–	–	–	(0.2)	–	(0.3)
Charge to equity	–	–	(0.2)	–	–	(6.6)	(0.1)	–	–	(6.9)
At 25 December 2021	**(39.1)**	**(0.5)**	**0.2**	**(0.2)**	**0.7**	**(9.3)**	**0.7**	**26.1**	**(9.3)**	**(30.7)**

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	25 December 2021	26 December 2020
Deferred tax asset	**9.9**	13.0
Deferred tax liabilities	**(40.6)**	(19.7)
	(30.7)	(6.7)

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

£ million	25 December 2021	26 December 2020
Capital losses	**3.4**	3.7
Trading losses	**14.6**	13.9
	18.0	17.6

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

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

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

24. LEASES

The Group leases assets including land and buildings and plant and machinery that are held within property, plant and equipment. Information about leases for which the Group is a lessee is presented below.

Analysis of property, plant and equipment relating to leases

The Group has split the net book value of property, plant and equipment relating to leases between amounts previously recognised as finance leases under IAS 17 and amounts recognised as right-of-use assets under IFRS 16. This allows management to review performance excluding IFRS 16, as set out in Note 36, Alternative performance measures.

£ million	25 December 2021	26 December 2020
Net book value of leased property, plant and equipment excluding right-of-use assets	**2.8**	3.4
Net book value of right-of-use assets	**73.2**	71.7
	76.0	75.1

Net book value of right-of-use assets

£ million	Land and buildings	Plant and machinery	Total
Balance at 29 December 2019	70.6	2.8	73.4
Additions	10.2	2.0	12.2
Depreciation charge	(9.7)	(1.7)	(11.4)
Impairment for the period	(2.3)	–	(2.3)
Exchange differences	(0.2)	–	(0.2)
At 26 December 2020	68.6	3.1	71.7
Additions	12.8	1.4	14.2
Depreciation charge	(9.8)	(1.6)	(11.4)
Impairment for the period	(1.3)	–	(1.3)
At 25 December 2021	**70.3**	**2.9**	**73.2**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

24. LEASES CONTINUED

Lease liabilities

£ million	Present value of minimum lease payments 25 December 2021	26 December 2020
Amounts payable under leases:		
Within one year	**10.8**	11.1
In the second to fifth years inclusive	**29.3**	27.9
Over five years	**44.5**	43.0
Present value of lease obligations	**84.6**	82.0
Analysed as:		
Amount due for settlement within 12 months	**10.8**	11.1
Amount due for settlement after 12 months	**73.8**	70.9
	84.6	82.0

The Group has split the lease liabilities between liabilities previously recognised as finance leases under IAS 17 and liabilities recognised under IFRS 16. This allows management to review both the Group net debt, as set out in Note 21, Borrowings, and the Group operational net debt as set out in Note 36, Alternative performance measures.

£ million	25 December 2021	26 December 2020
Lease liabilities relating to leases previously recognised under IAS 17	**1.0**	1.6
Lease liabilities relating to leases recognised under IFRS 16	**83.6**	80.4
	84.6	82.0

The weighted average lease term outstanding is 14.8 years (2020: 15.4 years). For 2021, the weighted average incremental borrowing rate was 3.32% (2020: 3.41%). 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 Group's lease obligations are secured by the lessors' rights over the leased assets.

The Group utilises the exemption from capitalising short-term and low-value leases where the relevant criteria are met. The expenses relating to these lease types are disclosed below.

Amounts recognised in the consolidated income statement

£ million	2021	2020
Interest on lease liabilities	**2.7**	2.7
Expenses relating to low-value leases	**2.2**	2.4
Expenses relating to short-term leases	**0.9**	0.7
	5.8	5.8

Amounts recognised in the statement of cash flows

£ million	2021	2020
Cash outflow for lease principal payments	**11.7**	11.4
Cash outflow for lease interest payments	**2.7**	2.7
Total cash outflow for leases	**14.4**	14.1

25. TRADE AND OTHER PAYABLES

£ million	25 December 2021	26 December 2020
Trade payables	**237.6**	227.9
Other taxation	**2.1**	1.9
Other payables	**21.5**	20.9
Accruals and deferred income	**129.6**	116.9
Trade and other payables due within one year	**390.8**	367.6

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 62 days (2020: 59 days). No interest is incurred against trade payables.

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

During 2019, the Group set up an arrangement to provide financing for the Group's suppliers. This is a voluntary programme that potentially gives suppliers earlier access to cash. At 25 December 2021, trade payables amounting to £31.6 million (2020: £27.9 million) were subject to these arrangements. These balances are classified as trade payables, and the related payments as cash flows from operating activities since the original obligation to the supplier remains and has not been replaced with a new obligation to the bank.

Other payables include the Group's liabilities in respect of payroll taxes.

26. PROVISIONS

£ million	Onerous contracts	Dilapidation provisions	Legal and other provisions	Restructuring provisions	Total
At 29 December 2019	1.9	15.9	1.7	0.8	20.3
Utilisation of provision	(0.5)	(1.4)	(0.2)	(4.4)	(6.5)
Additional provision in the year	0.7	3.5	5.1	4.8	14.1
Release of provision	(0.9)	(1.5)	(0.2)	–	(2.6)
Unwinding of discount	–	0.1	–	–	0.1
At 26 December 2020	1.2	16.6	6.4	1.2	25.4
Included in current liabilities	0.1	3.6	6.4	0.9	11.0
Included in non-current liabilities	1.1	13.0	–	0.3	14.4
At 26 December 2020	1.2	16.6	6.4	1.2	25.4
Utilisation of provision	(0.4)	(0.2)	(0.9)	(0.5)	(2.0)
Additional provision in the year	1.1	–	0.5	–	1.6
Release of provision	(0.1)	–	(2.1)	(0.2)	(2.4)
Unwinding of discount	–	0.2	–	–	0.2
At 25 December 2021	**1.8**	**16.6**	**3.9**	**0.5**	**22.8**
Included in current liabilities	**0.2**	**4.3**	**3.9**	**0.1**	**8.5**
Included in non-current liabilities	**1.6**	**12.3**	**–**	**0.4**	**14.3**

Onerous contracts provisions brought forward from the end of 2020 relate to the Group's leased vacant properties. During the year an additional onerous contract provision of £1.1 million (2020: £0.7 million) was made in respect of one of the Group's vacant properties. The onerous contract has been calculated as the discounted total expected costs for occupying the property (including service charges but excluding lease rentals and rates) through to the break clause. The provisions will be utilised over the term of the individual leases to which they relate. These leases expire within 9 to 18 years.

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 range from 1 to 29 years.

The legal and other provisions, which are expected to be settled within 12 months and have decreased by £2.5 million in the year (2020: increased by £4.7 million in the year), are assessed by utilising Group experience, legal and professional advice and other commercial factors to reasonably estimate present obligations across the Group. These obligations are varied and depend on future events which are by their nature uncertain. The Group has taken this uncertainty into account and considers the provision to be reasonable in the circumstances. The Group is also subject to a National Living Wage enquiry, which has been ongoing since July 2017. The Directors have assessed and provided for the potential liability that may arise from the enquiry and this is included in legal and other provisions above.

Restructuring provisions at the end of 2020 related to the closure costs in respect of the Group's non-core UK fast casual restaurant business and site closures during 2020.

27. 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 21, 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 of less than 50%. This 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	25 December 2021	26 December 2020
Debt (excluding IFRS 16 lease liabilities)	**321.6**	356.2
Cash and cash equivalents	**(31.1)**	(24.8)
Net debt	**290.5**	331.4
Equity	**640.7**	598.1
Net debt to net debt plus equity	**31.2%**	35.7%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

27. FINANCIAL INSTRUMENTS CONTINUED

Debt is defined as long and short-term borrowings, as disclosed in Note 21 and lease liabilities payable in Note 24 (excluding IFRS 16 lease liabilities of £83.6 million at 25 December 2021 (£80.4 million at 26 December 2020)).

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	25 December 2021	26 December 2020
Financial assets		
Fair value through profit and loss:		
Trade receivables	**53.8**	56.6
Derivative financial instruments	**2.9**	0.6
Measured at amortised cost:		
Trade receivables	**61.6**	57.0
Other receivables	**17.2**	14.9
Cash and cash equivalents	**31.1**	24.8
	166.6	153.9

£ million	25 December 2021	26 December 2020
Financial liabilities		
Fair value through profit and loss:		
Derivative financial instruments	**2.1**	1.8
Other financial liabilities at amortised cost:		
Trade payables	**237.6**	227.9
Other payables	**21.5**	20.9
Accruals	**128.4**	115.7
Borrowings	**320.6**	354.6
Lease liabilities	**84.6**	82.0
	794.8	802.9

The fair value of financial assets 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 lease liabilities 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.

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 swaps 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 25 December 2021, the Euro weakened against Sterling by 6.6% (2020: strengthened by 5.1%), with the closing rate at €1.1850 compared with €1.1113 at the prior period end. The average rate for the 52-week period to 25 December 2021 was €1.1623 (2020: €1.1256), a 3.3% weakening (2020: 1.4% strengthening) of the Euro versus the prior period.

In the same period, the US dollar strengthened against Sterling by 1.0% (2020: weakened by 3.4%), with the closing rate at $1.3404 compared with $1.3534 at the prior period end. The average rate for the 52-week period to 25 December 2021 was $1.3753 (2020: $1.2831), a 7.2% weakening (2020: 0.4% weakening) of the US dollar versus the prior period.

The net foreign exchange impact on profit from transactions is a gain of £0.5 million (2020: loss of £0.2 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	**25 December 2021**	26 December 2020	**25 December 2021**	26 December 2020
Euro	**1.9**	2.4	**(2.3)**	(2.9)
USD	**0.3**	(0.9)	**(0.4)**	1.1
HKD	**(0.2)**	(0.1)	**0.3**	0.2
RMB	**(0.7)**	(0.7)	**0.8**	0.8

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 and cash flow exposures associated with anticipated purchase transactions.

As of 27 December 2020, the Group has applied hedge accounting to its forward contracts that were put in place on or after this date. The transactions and forward contracts are designated with a hedge ratio of 1:1. The fair value of forward contracts at the reporting date is determined by the difference between foreign currency spot rate and strike rate of the contract, discounted to present value. Sources of hedge ineffectiveness are a reduction or modification in the hedged item or a material change in the credit risk of contract counterparties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

27. FINANCIAL INSTRUMENTS CONTINUED

The following table details Sterling foreign currency contracts outstanding as at 25 December 2021, which were entered into on or before 26 December 2020, for which hedge accounting is not applied:

	Foreign currency (million)		Average exchange rate		Contract value (£ million)		Fair value movement (£ million)	
Outstanding contracts	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020
Net Euros:								
3 months or less	**8.0**	28.7	**1.10**	1.11	**7.2**	25.7	**(0.5)**	0.1
3 to 6 months	**6.0**	27.6	**1.11**	1.13	**5.4**	24.7	**(0.3)**	0.1
6 to 12 months	**–**	28.5	**–**	1.11	**–**	25.7	**–**	0.1
Over 12 months	**–**	14.0	**–**	1.10	**–**	12.6	**–**	0.0
Net US dollars:								
3 months or less	**1.5**	6.5	**1.33**	1.30	**1.2**	5.0	**–**	(0.2)
3 to 6 months	**–**	5.0	**–**	1.31	**–**	3.8	**–**	(0.1)
6 to 12 months	**–**	7.5	**–**	1.33	**–**	5.7	**–**	(0.2)
Over 12 months	**–**	1.5	**–**	1.34	**–**	1.2	**–**	(0.0)
					13.8	104.4	**(0.8)**	(0.2)

The following table details Sterling foreign currency contracts outstanding as at 25 December 2021, which were entered into on or after 27 December 2020, for which hedge accounting is applied:

	Foreign currency (million)		Average exchange rate		Contract value (£ million)		Fair value movement (£ million)	
Outstanding contracts	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020
Net Euros:								
3 months or less	**20.8**	–	**1.16**	–	**18.0**	–	**(0.4)**	–
3 to 6 months	**22.2**	–	**1.16**	–	**19.1**	–	**(0.3)**	–
6 to 12 months	**31.4**	–	**1.16**	–	**27.2**	–	**(0.4)**	–
Over 12 months	**12.0**	–	**1.16**	–	**10.3**	–	**0.0**	–
Net US dollars:								
3 months or less	**4.8**	–	**1.35**	–	**3.6**	–	**0.1**	–
3 to 6 months	**4.7**	–	**1.35**	–	**3.5**	–	**0.0**	–
6 to 12 months	**9.4**	–	**1.35**	–	**7.0**	–	**0.0**	–
Over 12 months	**1.7**	–	**1.36**	–	**1.3**	–	**0.0**	–
					90.0	–	**(1.0)**	–

The following tables detail various information regarding forward contracts, for which hedge accounting is applied, outstanding at the end of the reporting period and their related hedged items.

	Average contracted exchange rate		Contract value		Carrying amount of the hedging instrument assets/(liabilities)		Change in fair value used for calculating hedge ineffectiveness	
Hedging instruments	**2021**	2020	**2021 £ million**	2020 £ million	**2021 £ million**	2020 £ million	**2021 £ million**	2020 £ million
Forward contracts – EURO	**1.16**	–	**74.6**	–	**(1.1)**	–	**(1.1)**	–
Forward contracts – USD	**1.35**	–	**15.4**	–	**0.1**	–	**0.1**	–

	Nominal amount of the hedged item (liabilities)		Change in value used for calculating hedge ineffectiveness		Balance in cash flow hedge reserve for continuing hedges		Balance in cash flow hedge reserve arising from hedging relationships for which hedge accounting is no longer applied	
Hedged items	**2021 Foreign currency million**	2020 Foreign currency million	**2021 £ million**	2020 £ million	**2021 £ million**	2020 £ million	**2021 £ million**	2020 £ million
Foreign currency purchases – EURO	**86.4**	–	**1.1**	–	**(1.1)**	–	**–**	–
Foreign currency purchases – USD	**20.6**	–	**(0.1)**	–	**0.1**	–	**–**	–

The following table details the effectiveness of the hedging relationship and the amounts reclassified from hedging reserve:

Hedged items	Current period hedging losses recognised in OCI 2021 £ million	Current period hedging losses recognised in OCI 2020 £ million	Amount of hedge ineffectiveness recognised in profit or loss 2021 £ million	Amount of hedge ineffectiveness recognised in profit or loss 2020 £ million	Line item in the income statement in which hedge ineffectiveness is included	Due to hedged future cash flows being no longer expected to occur 2021 £ million	Due to hedged future cash flows being no longer expected to occur 2020 £ million	Line item in which reclassification adjustment is included
Foreign currency purchases	**(1.0)**	–	**–**	–	Other gains and losses	**–**	–	Inventory

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. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite, ensuring the most cost-effective hedging strategies are applied. 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 25 December 2021**	(Loss)/profit 26 December 2020
Effects of 100 basis points increase in interest rate	**(1.8)**	(1.8)
Effects of 100 basis points decrease in interest rate	**0.1**	0.1

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

Interest rate swap contracts

Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the cash flow exposures on the issued variable rate debt held. The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using the curves at the reporting date and the credit risk inherent in the contract is disclosed below. The average interest rate is based on the outstanding balances at the end of the financial year. The £150 million of the floating debt is designated with quarterly interest payment dates and is offset by an interest rate swap with the same critical terms, with a designated hedge ratio of 1:1. Sources of hedge ineffectiveness are a reduction or modification in the hedged item or a material change in the credit risk of swap counterparties.

As the critical terms of the interest rate swap contracts and their corresponding hedged items are the same, the Group performs a qualitative assessment of effectiveness and it is expected that the value of the interest rate swap contracts and the value of the corresponding hedged items will systematically change in the opposite direction in response to movements in the underlying interest rates.

During the year the Group transitioned from LIBOR to SONIA, as described in Note 1. All of the interest rate swaps amounting to £150.0 million were subject to this transition.

The following tables detail various information regarding interest rate swap contracts outstanding at the end of the reporting period and their related hedged items.

Hedging instruments	Average contracted fixed interest rate 2021 %	Average contracted fixed interest rate 2020 %	Notional principal value 2021 £ million	Notional principal value 2020 £ million	Carrying amount of the hedging instrument assets/(liabilities) 2021 £ million	Carrying amount of the hedging instrument assets/(liabilities) 2020 £ million	Change in fair value used for calculating hedge ineffectiveness 2021 £ million	Change in fair value used for calculating hedge ineffectiveness 2020 £ million
Interest rate swaps	**0.4**	0.4	**150.0**	150.0	**2.5**	(0.9)	**3.4**	(0.9)

Hedged items	Nominal amount of the hedged item (liabilities) 2021 £ million	Nominal amount of the hedged item (liabilities) 2020 £ million	Change in value used for calculating hedge ineffectiveness 2021 £ million	Change in value used for calculating hedge ineffectiveness 2020 £ million	Balance in cash flow hedge reserve for continuing hedges 2021 £ million	Balance in cash flow hedge reserve for continuing hedges 2020 £ million	Balance in cash flow hedge reserve arising from hedging relationships for which hedge accounting is no longer applied 2021 £ million	Balance in cash flow hedge reserve arising from hedging relationships for which hedge accounting is no longer applied 2020 £ million
Variable rate borrowings	**(150.0)**	(150.0)	**(3.4)**	0.9	**2.5**	(0.9)	**–**	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

27. FINANCIAL INSTRUMENTS CONTINUED

The following table details the effectiveness of the hedging relationship and the amounts reclassified from hedging reserve to income statement:

	Current period hedging gains/(losses) recognised in OCI		Amount of hedge ineffectiveness recognised in profit or loss		Line item in the income statement in which hedge ineffectiveness is included	Amount reclassified to income statement: Due to hedged future cash flows being no longer expected to occur		Amount reclassified to income statement: Line item in income statement in which reclassification adjustment is included
Hedged items	**2021 £ million**	2020 £ million	**2021 £ million**	2020 £ million		**2021 £ million**	2020 £ million	
Variable rate borrowings	**3.4**	(0.9)	**–**	–	Other gains and losses	**–**	–	Finance costs

When interest amounts are paid or received on its interest rate swap contracts, the Group recognises the expenses or income in the income statement. During 2021 the net amount paid and recognised as expenses in finance costs was £0.4 million (2020: £0.2 million). After payment or receipt the hedge is revalued and movements are recognised as a movement in the hedging reserve.

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 financial assets measured 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, represent more than 74% (2020: 75%) 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 £225.0 million term loan (2020: £282.5 million) and a £230.0 million RCF facility (2020: £230.0 million), through a bank syndicate. Coöperatieve Rabobank U.A. is the syndicate agent of this facility and it manages the syndicate and participation with other counterparties.

The maximum exposure to credit risk for trade and other receivables at the reporting date by geographic region of origin was:

£ million	**25 December 2021**	26 December 2020
UK	**104.2**	105.9
US	**12.4**	8.9
China	**16.0**	13.7
	132.6	128.5

The expected credit losses on trade receivables are calculated locally by financial teams. These allowances are based on assumptions about the risk of default (when it is reasonably probable that no future economic benefit will arise from the financial asset) and expected loss rates. The Group uses judgement in making these assumptions with regards to customer credit ratings, credit risk characteristics and the days past due based on the Group's history and existing market conditions. Generally, the expected credit loss becomes 100% of the trade receivable once it is past due by 91 days; as at 25 December 2021 there were £0.4 million (2020: £1.7 million) of trade receivables past due by 91 days. This figure has been included in the expected credit loss of £2.8 million (2020: £1.6 million). The Group will generally write-off any trade receivables relating to customers that are in administration.

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. It also frequently tenders to benchmark market prices. In general, requirements are managed using contracts for periods of between three to twelve months forward. The Group also manages any local currency exposure in line with agreed contracts. As at 25 December 2021, the Group had purchase commitments for the next 12 months to guarantee supply and price of raw materials of £141.5 million (2020: £136.4 million).

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. As at 25 December 2021, the Group has undrawn borrowing facilities, including cash, available totalling £195.1 million (2020: £204.1 million). Please see Note 21 for further information regarding the Group's borrowings.

Maturity profile of financial liabilities

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

£ million	25 December 2021	26 December 2020
Non-derivatives due within one year:		
Trade payables	**237.6**	227.9
Other payables	**21.5**	20.9
Accruals	**128.4**	115.7
Borrowings	**11.2**	34.3
Lease liabilities	**13.3**	13.6
Total non-derivatives due within one year	**412.0**	412.4
Non-derivatives due in the second to fifth years inclusive:		
Borrowings	**324.9**	344.2
Lease liabilities	**36.5**	35.0
Total non-derivatives due in the second to fifth years	**361.4**	379.2
Non-derivatives due after five years:		
Borrowings	**11.8**	12.1
Lease liabilities	**58.2**	57.5
Total non-derivatives due after five years	**70.0**	69.6

The weighted average interest rates for the Group's borrowings are found in Note 21 and in Note 24 for lease liabilities.

The following table illustrates the Group's contractual maturity for derivative financial instruments when they fall due.

£ million	25 December 2021	26 December 2020
Derivative financial liabilities		
Due within one year	**1.7**	0.9
Due in the second to fifth years inclusive	**0.4**	0.9
Total	**2.1**	1.8

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	2021	2020
Finance costs		
On financial liabilities held at amortised cost	**(17.1)**	(21.0)
Changes in fair values recognised in Other gains and (losses)		
On financial liabilities held at fair value through profit and loss	**(4.0)**	3.4

28. CALLED UP SHARE CAPITAL, DIVIDENDS AND RESERVES

Called up share capital

£ million	25 December 2021	26 December 2020
Issued and fully paid:		
579,425,585 (2020: 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

28. CALLED UP SHARE CAPITAL, DIVIDENDS AND RESERVES CONTINUED

Dividends

As a result of the COVID-19 pandemic and its impact on the business during 2020 the Board did not declare any dividends for the financial year ended 26 December 2020.

At the AGM on 20 May 2021, a deferred final dividend of 4 pence per Ordinary share for the financial year ended 28 December 2019 was re-instated and declared. The total amount of £23,177,023 was paid to Ordinary shareholders on 25 May 2021.

An interim dividend of 2.64 pence per Ordinary share was declared in September 2021. The total amount of £15,296,835 was paid to Ordinary shareholders on 15 October 2021. This has resulted in total dividend payments of £38,473,858 (2020: £nil) during the year.

A final dividend of 3.96 pence per share has been proposed for approval at the Annual General Meeting on 25 May 2022 and will be payable on 30 May 2022 to Ordinary shareholders on the register at 29 April 2022.

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.

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

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.

Hedging reserve

The hedging reserve represents the cumulative amount of gains and losses on hedging instruments deemed effective in cash flow hedges. The cumulative deferred gain or loss on the hedging instrument is recognised in profit or loss only when the hedged transaction impacts the profit or loss, or is included directly in the initial cost or other carrying amount of the hedged non-financial items (basis adjustment).

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.

29. NET CASH GENERATED FROM OPERATING ACTIVITIES

£ million	2021	2020
Operating profit	**102.0**	62.0
Adjustments for:		
Share of results of associates after tax	**(0.3)**	(0.1)
Depreciation of property, plant and equipment	**65.2**	66.1
Amortisation of intangible assets	**0.5**	0.5
(Profit)/loss on disposal of property, plant and equipment	**(2.9)**	0.9
Impairment of assets	**1.3**	19.1
Share scheme charges	**1.7**	1.2
Net retirement benefits charge less contributions	**(1.4)**	(1.1)
Operating cash flows before movements in working capital	**166.1**	148.6
(Increase)/decrease in inventories	**(7.0)**	0.7
(Increase) in receivables	**(6.2)**	(5.1)
Increase/(decrease) in payables	**18.5**	(22.6)
(Decrease)/increase in provisions	**(2.9)**	4.9
Cash generated by operations	**168.5**	126.5
Income taxes paid	**(6.5)**	(16.5)
Interest paid	**(18.0)**	(21.5)
Net cash generated from operating activities	**144.0**	88.5

Analysis of changes in net debt

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

1 Includes accrued interest at 25 December 2021 of £0.2 million (2020: £2.3 million) and prepaid bank fees of £3.4 million (2020: £4.3 million). The movement in these balances in the period of £1.2 million is shown in the table above as 'Other non-cash movements' in Borrowings.

30. 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; please see Note 26 for further details about legal provisions.

The Group has the following amounts of letters of credit issued:

£ million	25 December 2021	26 December 2020
Letters of credit	**1.0**	1.3

As at 25 December 2021, the Group had purchase commitments for the next 12 months to guarantee supply and price of raw materials of £141.5 million (2020: £136.4 million).

31. 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. Options expire if they remain unexercised after a period of 5 or 10 years from the date of grant dependent on the award year. 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:

	Number of share options		Weighted average exercise price	
	25 December 2021	26 December 2020	**25 December 2021**	26 December 2020
Outstanding at the beginning of the period	**17,016,003**	15,236,588	**£0.18**	£0.40
Granted during the period	**4,094,843**	7,598,464	**–**	–
Granted in lieu of dividends during the period	**15,884**	–	**–**	–
Exercised during the period	**(1,204,191)**	–	**£0.70**	–
Forfeited during the period	**(98,773)**	(1,842,936)	**–**	–
Expired and lapsed during the period	**(2,109,913)**	(3,976,113)	**–**	£0.76
Outstanding at the end of the period	**17,713,853**	17,016,003	**£0.12**	£0.18
Exercisable at the end of the period	**3,613,752**	3,976,114	**£0.45**	£0.67

The average share price on the date options were exercised during the period was £1.29 (2020: no options exercised).

The options outstanding at 25 December 2021 had a weighted average exercise price of £0.12 (2020: £0.18), and a weighted average remaining contractual life of 7.9 years (2020: 8.3 years).

Range of exercise prices for the share options:

	Number of share options		Weighted average exercise price	
	25 December 2021	26 December 2020	**25 December 2021**	26 December 2020
£nil	**13,839,628**	12,039,889	**–**	–
£0.01 – £1.00	**3,874,225**	4,976,114	**£0.57**	£0.61
Outstanding at the end of the period	**17,713,853**	17,016,003	**£0.12**	£0.18
Exercisable at the end of the period	**3,613,752**	3,976,114	**£0.45**	£0.67

In 2021, 157,594 options were granted on 27 January 2021 under the same terms as the options granted in October 2020. Further, 3,770,227 options were granted on 26 April 2021 and 4 May 2021, with a further 167,022 options granted on 14 September 2021. These options granted had the following performance conditions for vesting:

- 136,823 vest provided that the individual is an employee in May 2024.
- 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 27 companies three years after the date of grant 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 three years after the date of grant is at the upper quartile level.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

31. SHARE-BASED PAYMENTS CONTINUED

- Provided that the first condition is met, 12.5% of the remaining options vest provided the Group's Adjusted EPS for the 2023 financial year is 12.7 pence, with up to a further 50% of the remaining options vesting on a sliding scale if the Group's Adjusted EPS is between 12.7 pence and 14.7 pence for that year.

In 2020, options were granted on 15 September 2020, 14 October 2020 and 30 October 2020. The options had the following performance conditions for vesting:

- 628,480 vest provided that the individual is an employee in October 2023.
- Provided that the first condition is met, 25% of the remaining options vest provided the Group's TSR national rank versus a bespoke peer group of 29 companies three years after the date of grant is at the median level. This increases up to 100% of the remaining options based on a sliding scale if the Group's TSR rank three years after the date of grant is at the upper quartile level.

In 2019, 3,992,846 options were granted on 9 April 2019. The options had the following performance conditions for vesting:

- 314,156 vest provided that the individual is an employee in April 2022.
- 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 25 December 2021 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 25 December 2021 is at the upper quartile level.
- Provided that the first condition is met, 12.5% of the remaining options vest provided the Group's Adjusted EPS for the 2021 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 2018, 2,842,686 options were granted on 9 April 2018 of which 139,527 had vested at 25 December 2021 with the remaining options having now expired.

In 2017, options were granted on 3 July 2017 and 20 October 2017. 3,474,225 of these options had vested but not been exercised at 25 December 2021 with a further 400,000 due to vest in 2022 provided that the employee is employed by the business at the vesting date.

The aggregate of the estimated fair values of the options granted as at 2021 is £22.4 million (2020: £14.1 million).

The following table summarises the options granted by the Company:

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	5.5	£1.44	38.2%	–	0.87%	2.75%	£0.65
20 October 2017	600,000	5.8	£1.44	37.5%	–	0.47%	2.75%	£1.34
20 October 2017	400,000	5.8	£1.44	37.7%	0.3	0.56%	2.75%	£1.26
9 April 2018	1,312,855	6.3	£1.78	24.5%	–	0.91%	0.00%	£0.94
9 April 2018	1,312,855	6.3	£1.78	23.5%	–	1.17%	0.00%	£1.78
9 April 2018	216,976	6.3	£1.78	N/A	–	N/A	0.00%	£1.78
9 April 2019	1,839,345	7.3	£1.33	31.0%	0.3	0.69%	0.00%	£0.59
9 April 2019	1,839,345	7.3	£1.33	31.0%	0.3	0.69%	0.00%	£1.33
9 April 2019	314,156	7.3	£1.33	31.0%	0.3	0.69%	0.00%	£1.33
15 September 2020	1,118,051	8.7	£0.68	35.7%	1.7	(0.10%)	0.00%	£0.42
14 October 2020	5,497,110	8.8	£0.65	35.7%	1.8	(0.09%)	0.00%	£0.40
14 October 2020	451,069	8.8	£0.65	35.7%	1.8	(0.09%)	0.00%	£0.64
30 October 2020	354,823	8.9	£0.59	35.7%	1.8	(0.07%)	0.00%	£0.34
30 October 2020	177,411	8.9	£0.59	35.7%	1.8	(0.07%)	0.00%	£0.58
27 January 2021	157,594	9.1	£0.59	35.7%	2.1	(0.07%)	0.00%	£0.34
26 April 2021	1,333,857	9.3	£1.36	41.5%	2.3	0.16%	0.00%	£1.08
26 April 2021	1,333,857	9.3	£1.36	43.7%	2.3	0.33%	0.00%	£1.30
26 April 2021	482,845	9.3	£1.36	41.5%	2.3	0.16%	0.00%	£1.08
26 April 2021	482,845	9.3	£1.36	43.7%	2.3	0.33%	0.00%	£1.30
26 April 2021	136,823	9.3	£1.36	43.7%	2.3	0.33%	0.00%	£1.30
14 September 2021	83,511	9.7	£1.29	42.0%	2.7	0.21%	0.00%	£1.01
14 September 2021	83,511	9.7	£1.29	42.0%	2.7	0.21%	0.00%	£1.24

The Group has used the Monte Carlo model to value its share awards. The exercise price used in the model for share options granted in 2021 is £nil (2020: £nil). The fair value of awards, which have a TSR performance condition, takes account of the likelihood of meeting these targets.

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 historical 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 £2.3 million (2020: £1.2 million) related to equity-settled share-based payment transactions in the period. The Group held cash-settled share-based awards of £0.6 million (2020: £nil) during the year.

32. 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 Bakkavor Pension Scheme, which is a funded defined benefit scheme that provides benefits on a final salary basis and was closed to future accrual in March 2011.

UK pensions are regulated by the Pensions Regulator whose statutory objectives and regulatory powers are described on its website www.thepensionsregulator.gov.uk. Although the Company bears the financial cost of the plan, the trustee directors are responsible for the overall management and governance of the scheme, including compliance with all applicable legislation and regulations. The trustee directors are required by law to act in the interests of all relevant beneficiaries and to set certain policies; to manage the day-to-day administration of the benefits; and to set the plan's investment strategy following consultation with the Parent Company.

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

£ million	2021	2020
UK defined contribution scheme net charge	**11.1**	11.2
UK defined benefit scheme net charge	**1.1**	1.5
Total charge	**12.2**	12.7

Defined contribution schemes

The total cost charged to income of £11.1 million (2020: £11.2 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 £2.3 million at the period end for the defined contribution schemes gross contributions (2020: £2.0 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 2019. The results from this valuation were updated for IAS 19 Employee Benefits purposes to 25 December 2021 by a qualified independent actuary with Willis Towers Watson. The projected unit cost method was used to value the liabilities.

The principal assumptions used in this IAS 19 valuation were:

	25 December 2021	26 December 2020
Future pension increases for in-payment benefits (majority of liabilities)	**3.25%**	2.85%
Discount rate applied to Scheme liabilities	**1.80%**	1.40%
Inflation assumption (CPI)	**2.75%**	2.25%

The 2021 mortality table is based on scheme-specific postcode-fitted SAPS 3 tables with a 107% multiplier for male members and a 110% multiplier for female members. Future improvements are in line with the CMI core 2018 improvements model with an initial addition to improvements of 0.5% p.a. and a 1.25% p.a. long-term trend from 2013 onwards, giving life expectancies as follows:

	Males' expected future lifetime 2021	Males' expected future lifetime 2020	Females' expected future lifetime 2021	Females' expected future lifetime 2020
Member aged 45	**41.3**	41.1	**43.8**	43.7
Member aged 65	**21.8**	21.7	**23.8**	23.8

The IAS 19 calculations, which are based on an approximate update of the results of the actuarial valuation of the Scheme which was carried out as at 31 March 2019, are particularly sensitive to some assumptions: for example, the discount rate, the level of assumed price inflation and the life expectancy assumption. As such, a broad indication of the sensitivity of the liabilities to each assumption is shown. The sensitivities display 'reasonably possible' changes in actuarial assumptions. The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

32. RETIREMENT BENEFIT SCHEMES CONTINUED

Assumption	Change in assumption	Approximate impact on scheme liabilities
Discount rate	Increase/decrease by 1.0%	Decrease £46.8 million/increase £61.2 million
Rate of inflation	Increase/decrease by 0.5%	Increase £19.5 million/decrease £19.3 million
Life expectancy	Members assumed to be one year younger than their actual age	Increase £11.3 million

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

£ million	2021	2020
Past service cost	0.1	0.6
Net interest on net defined benefit asset/liability	(0.2)	(0.2)
Administration costs incurred during the period	1.2	1.1
Total charge	1.1	1.5

All of the charges for each period presented have been included in total administrative expenses. The actuarial gain of £24.5 million (2020: £0.4 million gain) has been reported in other comprehensive income.

The actual return on Scheme assets was an increase of £25.6 million (2020: £31.3 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	25 December 2021	26 December 2020
Fair value of Scheme assets	313.5	294.7
Present value of defined benefit obligations	(276.3)	(283.5)
Scheme surplus	37.2	11.2
Related deferred taxation liability (Note 23)	(9.3)	(2.1)
	27.9	9.1

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 2021 is 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.

The amounts recognised in the balance sheet and the movements in the net defined benefit obligation ("DBO") over the year are as follows:

£ million	Present value of DBO	Fair value of Scheme assets	Net amount
At 29 December 2019	**(264.4)**	**274.1**	**9.7**
Past service cost – plan amendments	(0.6)	–	(0.6)
Interest (expense cost on the DBO)/income on Scheme assets	(4.6)	4.8	0.2
Administrative costs paid	–	(1.1)	(1.1)
Total amount recognised in the consolidated income statement	**(5.2)**	**3.7**	**(1.5)**
Return on Scheme assets greater/(less) than discount rate	–	26.5	26.5
Actuarial loss – financial assumptions	(26.1)	–	(26.1)
Total amount recognised in other comprehensive income	**(26.1)**	**26.5**	**0.4**
Contributions from the sponsoring companies	–	2.6	2.6
Benefits paid from Scheme assets	12.2	(12.2)	–
At 26 December 2020	**(283.5)**	**294.7**	**11.2**
Past service cost – plan amendments	(0.1)	–	(0.1)
Interest (expense cost on the DBO)/income on Scheme assets	(3.9)	4.1	0.2
Administrative costs paid	–	(1.2)	(1.2)
Total amount recognised in the consolidated income statement	**(4.0)**	**2.9**	**(1.1)**
Return on Scheme assets greater/(less) than discount rate	–	21.5	21.5
Actuarial gain – financial assumptions	3.0	–	3.0
Total amount recognised in other comprehensive income	**3.0**	**21.5**	**24.5**
Contributions from the sponsoring companies	–	2.6	2.6
Benefits paid from Scheme assets	8.2	(8.2)	–
At 25 December 2021	**(276.3)**	**313.5**	**37.2**

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

	Fair value of assets	
£ million	25 December 2021	26 December 2020
Structured UK equity	**13.0**	16.0
Overseas equity	**30.7**	28.5
High yield bonds	**7.5**	17.5
Corporate bonds	**74.4**	22.1
Government bonds	**141.7**	157.2
Cash	**11.3**	15.3
Other	**34.9**	38.1
	313.5	294.7

The fair values of the majority of the equity and bonds have been determined as level 2 instruments under IFRS 7 Financial Instruments: Disclosures, except for most of the index-linked government bonds, which have quoted prices in active markets and are classed as level 1.

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

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

The Scheme invests in 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 Trustees on behalf of the members in accordance with the terms of the Trust Deed and Rules and relevant legislation. The Scheme is subject to Scheme-specific funding requirements, as outlined in UK legislation. The most recent Scheme-specific funding valuation was as at 31 March 2019.

The Group and the Trustees work closely 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 liability matching assets, 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. This 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 2021, an augmentation of £89,000 was made in respect of this benefit (2020: £125,000).

The current deficit reduction contributions were agreed between the Group and the Trustee as part of the 2019 triennial valuation. The deficit contributions will be paid over a recovery period ending on 31 March 2024. The recovery contributions are paid monthly and the agreed rates are £2.5 million per annum. £2.5 million was paid in the period to 25 December 2021 (2020: £2.5 million).

The actual amount of employer contributions expected to be paid to the Scheme during 2022 is £2.5 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

33. 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.

Share transactions

See Note 35 for details of share transactions by two of the Company's Directors, Agust Gudmundsson and Lydur Gudmundsson.

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 for each of the categories specified in IAS 24 Related Party Disclosures.

£ million	2021 Directors	2021 Senior Management	2021 Total	2020 Directors	2020 Senior Management	2020 Total
Short-term employee benefits	**3.8**	**1.1**	**4.9**	1.9	2.2	4.1
Post-employment benefits[1]	**–**	**–**	**–**	–	–	–
Share-based payments[2]	**0.5**	**0.3**	**0.8**	0.1	0.5	0.6
	4.3	**1.4**	**5.7**	2.0	2.7	4.7

1 The Directors' post-employment benefits show contributions made to pension schemes. The pension entitlements disclosed in the Directors' Remuneration Report on page 135 included cash contributions paid in lieu of pension contributions.

2 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 31.

The highest paid Director received aggregate remuneration (including pension entitlements) of £1.3 million (2020: £0.7 million).

For the period ended 25 December 2021, two Directors (2020: no Directors) received contributions to their pension schemes from the Group.

For the period ended 25 December 2021, two Directors (2020: one Director) received share options. No Directors (2020: no Directors) exercised share options during the period.

34. EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

On 1 March 2022 the Group agreed a one year extension to the maturity of £430 million of its existing £455 million debt facilities, to March 2026. The remaining £25 million of facilities retain a maturity date of March 2025.

35. CONTROLLING PARTY

These Financial Statements are the largest consolidated Financial Statements in which the Company has been included.

Two of the Company's Directors, Agust Gudmundsson and Lydur Gudmundsson, hold shares in the Company through their beneficial ownership of Carrion Enterprises Limited and Umbriel Ventures Limited. On 23 May 2019, Carrion Enterprises Limited and Umbriel Ventures Limited each sold 3,229,625 ordinary shares to Lixaner Co Limited, a company owned and controlled by Sigurdur Valtysson, who runs the family office for Agust and Lydur Gudmundsson. On 21 April 2021, Lixaner Co Limited sold 1,500 shares. Following these transactions, Lixaner Co Limited holds 6,457,750 ordinary shares (representing 1.11% of the issued share capital of the company) and Carrion Enterprises Limited and Umbriel Ventures Limited each hold 142,103,505 ordinary shares (representing 24.52% of the issued share capital of the Company).

Given the close relationship between the parties, Sigurdur Valtysson is to be considered as acting in concert with Agust and Lydur Gudmundsson for the purposes of the definition in the Takeover Code and the parties are controlling shareholders of the Company. The aggregate shareholding in the Company of Carrion Enterprises Limited and Umbriel Ventures Limited and their concert party group (Lixaner Co Limited) is 290,664,760 ordinary shares (representing 50.16% of the issued share capital of the Company).

36. ALTERNATIVE PERFORMANCE MEASURES

The Group uses various non-IFRS financial measures to evaluate growth trends, assess operational performance and monitor cash performance. The Directors consider that these measures enable investors to understand the ongoing operations of the business. They are used by management to monitor financial performance as it is considered to aid comparability of the financial performance of the Group from year to year.

Like-for-like revenue

The Group defines like-for-like revenue as revenue from continuing operations adjusted for the revenue generated from businesses closed or sold in the current and prior year, revenue generated from businesses acquired in the current and prior period and the effect of foreign currency movements. The Directors believe like-for-like 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 like-for-like revenue for the Group.

£ million	2021	2020	Change %
Statutory revenue	**1,871.6**	1,793.5	4.4%
Revenue from closed and sold businesses	**–**	(18.4)	
Effect of currency movements	**14.0**	–	
Like-for-like revenue	**1,885.6**	1,775.1	6.2%

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

UK

£ million	2021	2020	Change %
Statutory revenue	**1,592.4**	1,566.6	1.6%
Revenue from closed and sold businesses	**–**	(18.4)	
Like-for-like revenue	**1,592.4**	1,548.2	2.9%

US

£ million	2021	2020	Change %
Statutory revenue	**180.1**	146.5	22.9%
Effect of currency movements	**12.9**	–	
Like-for-like revenue	**193.0**	146.5	31.8%

China

£ million	2021	2020	Change %
Statutory revenue	**99.1**	80.4	23.2%
Effect of currency movements	**1.1**	–	
Like-for-like revenue	**100.2**	80.4	24.6%

Adjusted EBITDA and adjusted operating profit

The Group manages the performance of its businesses through the use of 'Adjusted EBITDA' and 'Adjusted operating profit', as these measures exclude the impact of items that hinder comparison of profitability year-on-year. In calculating Adjusted operating profit, we exclude restructuring costs, asset impairments, and those additional charges or credits that are considered significant or one-off in nature. In addition, for Adjusted EBITDA we exclude depreciation, amortisation, the share of results of associates after tax and share scheme charges, as these are non-cash amounts. Adjusted operating profit margin is used as an additional profit measure that assesses profitability relative to the revenues generated by the relevant segment; it is calculated by dividing the Adjusted operating profit by the statutory revenue for the relevant segment. The Group calculates Adjusted EBITDA on a pre-IFRS 16 basis for the purposes of determining covenants under its financing agreements.

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

£ million	Note	2021	2020
Operating profit		**102.0**	62.0
Exceptional items	7	**–**	21.6
Adjusted operating profit		**102.0**	83.6
Depreciation		**65.2**	66.1
Amortisation		**0.5**	0.5
Share scheme charges		**2.3**	1.2
(Profit)/loss on disposal of property, plant and equipment		**(2.9)**	0.9
Share of results of associates after tax		**(0.3)**	(0.1)
Adjusted EBITDA post IFRS 16		**166.8**	152.2
Less IFRS 16 impact		**(12.6)**	(13.0)
Adjusted EBITDA pre IFRS 16[1]		**154.2**	139.2
Covenant adjustments		**1.4**	6.6
Adjusted EBITDA (pre IFRS 16 and including covenant adjustments)		**155.6**	145.8

1 Excludes the impact of IFRS 16 as the Group's bank facility agreement definition of Adjusted EBITDA excludes the impact of this standard.

Adjusted EBITDA and Adjusting operating profit by segment is reconciled to operating profit in Note 4.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

36. ALTERNATIVE PERFORMANCE MEASURES CONTINUED

Operational net debt and leverage

Operational net debt excludes the impact of non-cash items on the Group's net debt. The Directors use this measure as it reflects actual net borrowings at the relevant reporting date and is most comparable with the Group's free cash flow and aligns with the definition of net debt in the Group's bank facility agreements which exclude the impact of IFRS 16. The following table sets out the reconciliation from the Group's net debt to the Group's operational net debt.

£ million	Note	25 December 2021	26 December 2020
Group net debt	21	**(374.1)**	(411.8)
Unamortised fees		**(3.4)**	(4.3)
Interest accrual		**0.2**	2.3
Lease liabilities recognised under IFRS 16		**83.6**	80.4
Group operational net debt		**(293.7)**	(333.4)
Adjusted EBITDA (pre IFRS 16 and including covenant adjustments)		**155.6**	145.8
Leverage (Operational net debt/Adjusted EBITDA pre IFRS 16 and including covenant adjustments)		**1.9**	2.3

Free cash flow

The Group defines free cash flow as the amount of cash generated by the Group after meeting all of its obligations for interest, tax and pensions, and after purchases of property, plant and equipment (excluding development projects), but before payments of refinancing fees and other exceptional or significant non-recurring cash flows. Free cash flow has benefitted from non-recourse factoring of receivables as set out in Note 19 and the extension of payment terms for certain suppliers as described in Note 25. The Directors view free cash flow as a key liquidity measure, and the purpose of presenting free cash flow is to indicate the underlying cash available to pay dividends, repay debt or make further investments in the Group. The following table provides a reconciliation from net cash generated from operating activities to free cash flow.

£ million	2021	2020
Net cash generated from operating activities	**144.0**	88.5
Dividends received from associates	**0.7**	0.1
Purchases of property, plant and equipment	**(59.8)**	(56.4)
Proceeds on disposal of property, plant and equipment	**4.2**	0.1
Cash impact of exceptional items	**1.2**	3.6
Refinancing fees	**0.9**	4.2
Free cash flow	**91.2**	40.1

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 for the period adjusted to exclude exceptional items as presented in the consolidated income statement and the change in value of derivative financial instruments. 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 for the period to Adjusted earnings.

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

£ million	2021	2020
Profit for the period	**56.8**	34.1
Exceptional items (Note 7)	**–**	21.6
Accelerated finance costs	**–**	1.7
Change in fair value of derivative financial instruments	**4.0**	(3.4)
Tax on the above items	**(0.8)**	(3.8)
Adjusted earnings used for the adjusted earnings per share calculation	**60.0**	50.2
Add back: Tax on adjusted profit before tax	**25.4**	13.9
Adjusted profit before tax	**85.4**	64.1
Effective tax rate on underlying activities (Tax on Adjusted profit before tax/Adjusted profit before tax)	**29.7%**	21.7%

Number of shares '000	2021	2020
Weighted average number of Ordinary shares	**579,426**	579,426
Effect of dilutive Ordinary shares	**9,775**	4,193
Weighted average number of diluted Ordinary shares	**589,201**	583,619

	2021	2020
Adjusted basic earnings per share	**10.4p**	8.7p
Adjusted diluted earnings per share	**10.2p**	8.6p

Return on Invested Capital ("ROIC")

The Group defines ROIC as Adjusted operating profit after tax divided by the average invested capital for the year. Adjusted operating profit after tax is defined as operating profit from excluding the impact of exceptional items, impairment of assets and profit on disposal of subsidiaries less tax at the Group's effective tax rate. Invested capital is defined as total assets less total liabilities excluding net debt at the period end, pension assets and liabilities (net of deferred tax) and fair values for derivatives not designated in a hedging relationship. The Group utilises ROIC to measure how effectively it uses invested capital. Average invested capital is 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 help analysts, investors and stakeholders to evaluate the Group's profitability and the efficiency with which its invested capital is employed.

The following table sets out the calculations of adjusted operating profit after tax and invested capital used in the calculation of ROIC.

£ million	Note	2021	2020
Operating profit		**102.0**	62.0
Exceptional items	7	**–**	21.6
Adjusted operating profit		**102.0**	83.6
Taxation at the underlying effective rate		**(30.3)**	(18.1)
Adjusted operating profit after tax		**71.7**	65.5
Invested capital			
Total assets		**1,503.5**	1,449.2
Total liabilities		**(862.8)**	(851.1)
Net debt at period end		**374.1**	411.8
Derivatives not designated as hedges		**0.9**	0.3
Retirement benefit scheme surplus		**(37.2)**	(11.2)
Deferred tax liability on retirement benefit scheme		**9.3**	2.1
Invested capital		**987.8**	1,001.1
Average invested capital for ROIC calculation		**994.4**	997.3
ROIC (%)		**7.2%**	6.6%

COMPANY STATEMENT OF FINANCIAL POSITION
AS AT 25 DECEMBER 2021

£ million	Notes	25 December 2021	26 December 2020
Non-current assets			
Shares in Group undertakings	4	**309.5**	309.5
Current assets			
Loans to Group undertakings	6	**97.2**	48.9
Deferred tax assets		**0.2**	0.2
		97.4	49.1
Total assets		**406.9**	358.6
Current liabilities			
Loans from Group undertakings	6	**(0.2)**	–
Total liabilities		**(0.2)**	–
Net assets		**406.7**	358.6
Equity			
Called up share capital	7	**11.6**	11.6
Merger reserve	7	**23.8**	23.8
Retained earnings		**371.3**	323.2
Total equity		**406.7**	358.6

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 £85.0 million (2020: £nil).

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 7 March 2022. They were signed on behalf of the Board of Directors by:

Agust Gudmundsson
Chief Executive Officer

Ben Waldron
Chief Financial Officer

COMPANY STATEMENT OF CHANGES IN EQUITY
52 WEEKS ENDED 25 DECEMBER 2021

£ million	Note	Called up share capital	Merger reserve	Retained earnings	Total equity
Balance at 29 December 2019		11.6	23.8	322.1	**357.5**
Credit for share-based payments		–	–	1.2	**1.2**
Deferred tax		–	–	(0.1)	**(0.1)**
Profit for the period		–	–	–	**–**
At 26 December 2020		11.6	23.8	323.2	**358.6**
Dividends	7	–	–	(38.5)	**(38.5)**
Credit for share-based payments		–	–	2.3	**2.3**
Cash-settlement of share-based awards		–	–	(0.6)	**(0.6)**
Deferred tax		–	–	(0.1)	**(0.1)**
Profit for the period		–	–	85.0	**85.0**
At 25 December 2021		**11.6**	**23.8**	**371.3**	**406.7**

NOTES TO THE COMPANY FINANCIAL STATEMENTS
52 WEEKS ENDED 25 DECEMBER 2021

1. GENERAL INFORMATION
Bakkavor Group plc is a public company, limited by shares, incorporated and domiciled in England, United Kingdom (Company number: 10986940, registered office: Fitzroy Place, 5th Floor, 8 Mortimer Street, London, England, W1T 3JJ). The Company's Ordinary shares are traded on the London Stock Exchange.

The principal activities of the Company and its subsidiaries are described within Note 1 of the Consolidated Financial Statements.

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 as applicable to companies using FRS 101 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 FRS 101:

- The requirement of IFRS 7 Financial Instruments: Disclosures;
- The requirements of paragraphs 91-99 of IFRS 13 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 Presentation of Financial Statements; and Paragraph 73(e) of IAS 16 Property, Plant and Equipment; and Paragraph 118(e) of IAS 38 Intangible Assets;
- The requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A-D, 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 paragraphs 17 and 18A 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;
- The requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d) – 134(f) and 135(c) – 135(e) of IAS 36 Impairment of Assets; and
- The requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 Share-based Payment.

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 have been applied consistently and 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.

Amounts due from other Group companies are initially recognised at fair value and subsequently carried at amortised cost net of allowance for expected credit losses. An allowance is made when there is objective evidence that the Company will be unable to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote. The Company's amounts due from other Group companies at 25 December 2021 amounted to £97.2 million (2020: £48.9 million). None of these balances include an allowance for expected credit losses and all amounts are expected to be recoverable in full.

3. EMPLOYEES', DIRECTORS' AND AUDITORS' REMUNERATION
Fees payable of £0.1 million (2020: £0.1 million) to the Company's Auditors in respect of the audit of the Company's Financial Statements for the periods ended 25 December 2021 and 26 December 2020 have been borne by fellow Group company Bakkavor Foods Limited.

The Company has no employees and payments to Directors for the periods ended 25 December 2021 and 26 December 2020 have been borne by fellow Group company Bakkavor Foods Limited. Details of Directors' remuneration is disclosed within Note 33 of Consolidated Financial Statements.

4. SHARES IN GROUP UNDERTAKINGS

£ million	Investment in Group companies
Balance at 26 December 2020 and 25 December 2021	**309.5**

NOTES TO THE COMPANY FINANCIAL STATEMENTS
52 WEEKS ENDED 25 DECEMBER 2021

5. SUBSIDIARIES

As at 25 December 2021, Bakkavor Group plc held investments in the share capital of the following companies:

Name	Place of registration and operation	Principal activity	% of voting shares as at 25 December 2021	% of voting shares as at 26 December 2020
Directly held investments:				
Bakkavor Holdings Limited[1]	UK	Holding company	100%	100%
Indirectly held investments:				
Bakkavor Finance (2) Limited[1]	UK	Holding company	100%	100%
Bakkavor (London) Limited[1]	UK	Holding company	100%	100%
Bakkavor Finance Limited[2]	UK	Customer invoicing and financing of receivables	100%	100%
Bakkavor Limited[1]	UK	Holding company	100%	100%
Bakkavor USA Inc[4]	USA	Holding company	100%	100%
Bakkavor USA Limited[1]	UK	Holding company	100%	100%
Bakkavor Foods USA Inc[4]	USA	Manufacture of custom and private label savoury and bakery products	100%	100%
Bakkavor China Limited[1]	UK	Holding company	100%	100%
Bakkavor Hong Kong Limited[5]	Hong Kong	Preparation and marketing of fresh prepared foods	100%	100%
Bakkavor China Holdings Limited[5]	Hong Kong	Holding company	100%	100%
Wuhan Bakkavor Food Company Limited[6]	China	Production and manufacture of salad products	100%	100%
Wuhan Bakkavor Agricultural Product Processing Company Limited[20]	China	Production and manufacture of salad products	100%	100%
Jiangsu Bakkavor Food Company Limited[7]	China	Production and manufacture of salad products	100%	100%
Shaanxi Bakkavor Food Company Limited[8]	China	Production and manufacture of salad products	100%	100%
Beijing Bakkavor Food Company Limited[9]	China	Production and manufacture of salad products	100%	100%
Guangzhou Bakkavor Food Company Limited[10]	China	Production and manufacture of salad products	100%	100%
Bakkavor (Shanghai) Management Company Limited[11]	China	Holding company	100%	100%
Shaanxi Bakkavor Agriculture Processing Company Limited[12]	China	Production and manufacture of salad products	100%	100%
Fujian Bakkavor Food Company Limited[13]	China	Production and manufacture of salad products	100%	100%
Bakkavor (Taicang) Baking Company Limited[14]	China	Production and manufacture of bakery products	100%	100%
Chengdu Bakkavor Foods Company Limited[15]	China	Production and manufacture of salad products	100%	100%
Bakkavor Foods Limited[1]	UK	Preparation and marketing of fresh prepared foods	100%	100%
Bakkavor Estates Limited[2]	UK	Property management	100%	100%
Bakkavor Pension Trustees Limited[1*]	UK	Pension trustee holding company	100%	100%
Bakkavor European Marketing BV[16]	Netherlands	Holding company	100%	100%
NV Bakkavor Belgium BV[17]	Belgium	Non-trading	100%	100%
BV Restaurant Group Limited[1]	UK	Production and distribution of fresh prepared foods	100%	100%
Bakkavor Iberica S.L.U.[18]	Spain	Distribution	100%	100%
Bakkavor Central Finance Limited[2]	UK	Customer invoicing and financing of receivables	100%	100%
Dormant companies				
Bakkavor Dormant Holdings Limited[1*]	UK	Holding company	100%	100%
Bakkavor Finance (1) Limited[1*]	UK	Dormant non-trading company	100%	100%
Bakkavor Finance (3) Limited[1*]	UK	Dormant non-trading company	100%	100%
Bakkavor Acquisitions (2008) Limited[1*]	UK	Dormant non-trading company	100%	100%
Bakkavor Invest Limited[1*]	UK	Dormant non-trading company	100%	100%
Bakkavor (Acquisitions) Limited[1*]	UK	Dormant non-trading company	100%	100%
Bakkavor Asia Limited[1*]	UK	Dormant non-trading company	100%	100%
Bakkavor Overseas Holdings Limited[1*]	UK	Dormant non-trading company	100%	100%
BV Foodservice Limited[1*]	UK	Dormant non-trading company	100%	100%
Bakkavor Desserts Leicester Limited[1]	UK	Production and manufacture of dessert products	100%	100%
Bakkavor Fresh Cook Limited[1*]	UK	Dormant non-trading company	100%	100%
English Village Salads Limited[1*]	UK	Dormant non-trading company	100%	100%

Name	Place of registration and operation	Principal activity	% of voting shares as at 25 December 2021	% of voting shares as at 26 December 2020
Notsallow 256 Limited[1*]	UK	Dormant non-trading company	100%	100%
Kent Salads Limited[1*]	UK	Dormant non-trading company	100%	100%
Laurens Patisseries Limited[1*]	UK	Dormant non-trading company	100%	100%
Hitchen Foods Limited[1*]	UK	Dormant non-trading company	100%	100%
Bakkavor Brothers Limited[1*]	UK	Dormant non-trading company	100%	100%
Cucina Sano Limited[1*]	UK	Dormant non-trading company	100%	100%
Butterdean Products Limited[1*]	UK	Dormant non-trading company	100%	100%
Exotic Farm Prepared Limited[1*]	UK	Dormant non-trading company	100%	100%
Exotic Farm Produce Limited[1*]	UK	Dormant non-trading company	100%	100%
Associate companies				
La Rose Noire Limited[19]	Hong Kong	Operation of bakery and food and beverage outlets	45%	45%
Patisserie et Chocolat Limited[19]	Hong Kong	Operation of bakery and food and beverage outlets	45%	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 South Xitai Road, Da Sun Gezhuang Town, Shunyi District, Beijing, China.
10 The registered address of this company is No. 55 Banyutang Road, High Tech Development Area, Guangzhou, China.
11 The registered address of this company is Room 01, 3A Floor, Number 16 Lane 1977, Jinshajiang Road, Putuo District, Shanghai, China.
12 The registered address of this company is No.424, Building 4, Chongwen tower scenic area (phase I), Jinghe new town, Xixian new district, Shaanxi province
13 The registered address of this company is Jiulong Industry Park of Hua An Economic Development Zone, China.
14 The registered address of this company is Taicang City, No 29 Qingdao East Road, China.
15 The registered address of this company is Rong Tai Road, Cross-Straits Science & Technology Industry Development Park, Wenjiang District, Chengdu, China.
16 The registered address of this company is Prins Bernhardplein 200, 1097 JB Amsterdam, The Netherlands.
17 The registered address of this company is Lammerdries-Zuid 16F, 2250 Olen, Belgium.
18 The registered address of this company is Calle Cartagena 57, 1º D Torre Pacheco, Murcia CP 30700, Spain.
19 The registered address of these companies is 2/F Corporation Square 8 Lam Lok Street, Kowloon Bay, Kowloon, Hong Kong. La Rose Noire and Patisserie et Chocolat Limited are associate companies of the Bakkavor Group, owned by Bakkavor China Limited.
20 The registered address of this company is Room 706, 7th floor, No. 1 Entrepreneurship service centre, Hanshi No. 1 road, Honggang village, Wuhan yangluo economic development zone
* These companies are UK dormant companies who file dormant accounts which are exempt from audit by virtue of s479A of Companies Act 2006

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 intercompany loan receivables. There are no interest-bearing balances and therefore the Company is not exposed to any interest rate risk.

Categories of financial instruments

£ million	25 December 2021	26 December 2020
Financial assets and liabilities		
Measured at amortised cost:		
Loans to Group undertakings	**97.2**	48.9
Loans from Group undertakings	**(0.2)**	–

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

7. CALLED UP SHARE CAPITAL AND RESERVES

Called up share capital

£ million	25 December 2021	26 December 2020
Issued and fully paid:		
579,425,585 (2020: 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.

As a result of the COVID-19 pandemic and its impact on the business during 2020 the Board did not declare any dividends for the financial year ended 26 December 2020.

At the AGM on 20 May 2021, a deferred final dividend of 4 pence per Ordinary share for the financial year ended 28 December 2019 was re-instated and declared. The total amount of £23,177,023 was paid to Ordinary shareholders on 25 May 2021.

An interim dividend of 2.64 pence per Ordinary share was declared in September 2021. The total amount of £15,296,835 was paid to Ordinary shareholders on 15 October 2021. This has resulted in total dividend payments of £38,473,858 (2020: £nil) during the year.

A final dividend of 3.96 pence per share has been proposed for approval at the Annual General Meeting on 25 May 2022 and will be payable on 30 May 2022 to Ordinary shareholders on the register at 29 April 2022.

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	25 December 2021	26 December 2020
Loans to Group undertakings	**97.2**	48.9
Loans from Group undertakings	**(0.2)**	–

Loans to Group undertakings relate to corporate loans of £85.0 million (2020: £nil) due from Bakkavor Holdings Limited, £12.2 million (2020: £48.4 million) due from Bakkavor Finance (2) Limited and £nil (2020: £0.5 million) due from Bakkavor Foods Limited.

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

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

Loans to Group undertakings do not carry interest on the outstanding corporate loan balances.

Loans from Group undertakings relate to a corporate loan of £0.2 million (2020: £nil) due from Bakkavor Foods Limited.

Loans from Group undertakings do not carry interest 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

Two of the Company's Directors, Agust Gudmundsson and Lydur Gudmundsson, hold shares in the Company through their beneficial ownership of Carrion Enterprises Limited and Umbriel Ventures Limited. On 23 May 2019, Carrion Enterprises Limited and Umbriel Ventures Limited each sold 3,229,625 ordinary shares to Lixaner Co Limited, a company owned and controlled by Sigurdur Valtysson, who runs the family office for Agust and Lydur Gudmundsson. On 21 April 2021, Lixaner Co Limited sold 1,500 shares. Following these transactions, Lixaner Co Limited holds 6,457,750 ordinary shares (representing 1.11% of the issued share capital of the company) and Carrion Enterprises Limited and Umbriel Ventures Limited each hold 142,103,505 ordinary shares (representing 24.52% of the issued share capital of the Company).

Given the close relationship between the parties, Sigurdur Valtysson is to be considered as acting in concert with Agust and Lydur Gudmundsson for the purposes of the definition in the Takeover Code and the parties are controlling shareholders of the Company. The aggregate shareholding in the Company of Carrion Enterprises Limited and Umbriel Ventures Limited and their concert party group (Lixaner Co Limited) is 290,664,760 ordinary shares (representing 50.16% of the issued share capital of the Company).

ADVISERS AND REGISTERED OFFICE

General Counsel and Company Secretary
Annabel Tagoe-Bannerman

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

Company number
10986940

Registrar
Equiniti Limited
Aspect House
Spencer Road
Lancing
BN99 6DA

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

Independent Auditors
PricewaterhouseCoopers LLP
1 Embankment Place
London
WC2N 6RH

Brokers
Citigroup Global Markets Limited
Citigroup Centre
33 Canada Square
London
E14 5LB

Peel Hunt LLP
100 Liverpool Street
London
EC2M 2AT

Solicitors
Freshfields Bruckhaus Deringer LLP
100 Bishopsgate
London
EC2P 2SR

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Bakkavor Group plc
Fitzroy Place, 5th Floor, 8 Mortimer Street, London, W1T 3JJ
Bakkavor Group plc. Company No: 10986940

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