

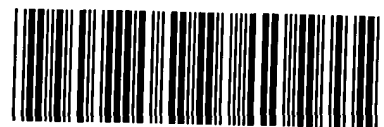
Registration number: 01060806

Bakkavor Foods Limited

Annual Report and Financial Statements

for the Period from 1 January 2017 to 30 December 2017

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Bakkavor Foods Limited

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Bakkavor Foods Limited

Company Information

Director A Gudmundsson

Company secretary S Witham

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

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

Auditor Deloitte LLP
Statutory Auditor
2 New Street Square
London
United Kingdom
EC4A 3BZ

Bakkavor Foods Limited

Director's Report for the Period from 1 January 2017 to 30 December 2017

The Director presents his report and the audited financial statements for the 52 week period from 1 January 2017 to 30 December 2017 ('2017'). Comparatives are for the 53 week period from 27 December 2015 to 31 December 2016 ('2016').

Principal activity

The principal activity of Bakkavor Foods Limited (the 'Company') is that of a leading provider of fresh prepared food products to some of the United Kingdom's most reputable and well known grocery retailers. These include Tesco, Marks and Spencer, J Sainsbury and Waitrose, who sell our products to their customers predominantly under their respective private labels. The Company operates within the Bakkavor Group plc group (the 'Group') and is a 100% owned subsidiary of Bakkavor Limited. A fair review of the business, as well as details on future development, dividends, principal risks and uncertainties, research and development, employment and equality are shown in the Strategic Report.

Going concern

The Director, in his detailed consideration of going concern, has reviewed the Company's future cash forecasts and revenue projections up to September 2019, which he believes are based on prudent market data and past experience. The Director has considered the Company's cash reserves and its access to the Group's financing arrangements. At the date of this report the Group has complied in all respects with the terms of its borrowing agreements, including its financial covenants, and forecasts to continue to do so.

Consequently, the Director considers that the Company has adequate resources to meet its liabilities as they fall due for a period of at least 12 months from the date of approval of the financial statements. For this reason, he continues to adopt the going concern basis in preparing the financial statements.

Director of the company

The Director who held office during the period and to the date of signing this report was as follows:

A Gudmundsson

Non adjusting events after the financial period

On 2 July 2018 the Company sold its shareholding in Anglia Crown Limited, a 100% owned shareholding at the balance sheet date.

Director's indemnities

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

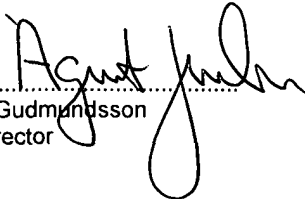
Bakkavor Foods Limited

**Director's Report for the Period from 1 January 2017 to 30 December 2017
(continued)**

Disclosure of information to the auditor

The Director has taken steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information. The Director confirms that there is no relevant information that he knows of and of which he knows the auditor is unaware. This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Approved by the Board on 20 September 2018 and signed on its behalf by:


.....
A Gudmundsson
Director

Bakkavor Foods Limited

Director's Responsibilities Statement

The Director is responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Director to prepare financial statements for each financial year. Under that law the Director has elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under Company law the Director must not approve the financial statements unless he is satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Director is required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether FRS 101 has been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Bakkavor Foods Limited

Strategic Report for the Period from 1 January 2017 to 30 December 2017

The Director presents his strategic report for the period from 1 January 2017 to 30 December 2017.

Future development of the Company

Our industry expertise and relationships with four of the United Kingdom's leading grocery retailers have us well positioned to lead growth in the fresh prepared and private label food market. As a result the Director is satisfied with the results and achievements and he believes that the future prospects of the Company are sound.

Fair review of the business

As shown in the Company's Profit and loss account, sales amounted to £1,530,602,000 (2016 - £1,492,815,000). Sales growth was driven by good volumes following a number of business wins across our core categories, as well as price increases driven by inflation. Sales in 2016 relate to a 53 week period, whereas the 2017 sales relate to a 52 week period. Adjusted EBITDA (Earnings before interest, tax, depreciation, amortisation, impairments, profit from disposal of investments and exceptional items) was £134,741,000 (2016 - £125,716,000) an increase of £9,025,000 or 7.2% compared to the prior period. The profit for the period, after taxation, amounted to £74,131,000 (2016 - profit of £70,806,000) an increase of £3,325,000.

The Director does not recommend the payment of a final dividend (2016 - £nil). The Balance sheet shows net assets amounting to £641,470,000 (2016 - £557,110,000) an increase of £84,360,000.

The Company has recognised an impairment charge of £4,523,000 (2016 - £912,000) in respect of the investment in two subsidiaries. The Company has made no impairment in the 52 week period ended 30 December 2017 (2016 - £7,210,000) in respect of property, plant and equipment. The Director is satisfied that the carrying values of the remaining fixed assets and investment in subsidiaries are appropriately stated. The Company has incurred exceptional costs of £3,122,000 as shown in note 9 (2016 - £2,790,000). The Director considers the factors discussed in the fair review of the business to be the Company's key performance indicators.

Principal risks and uncertainties

The Company is exposed to a number of risks and uncertainties across a range of strategic, operational and financial areas. The Company continually reviews its internal control and risk management processes and is fully aligned with the policies and objectives set by the Board of Directors of Bakkavor Group. The Company has formally identified key risks, of which, the successful management and mitigation is paramount to the day to day running of our business and the achievement of our long-term vision. These risks are set out below:

Operational risks

Food safety and integrity

Millions of people eat our products every day. We recognise we have a duty to make food that is safe for consumers to eat and is clearly and correctly labelled. Consumer safety and confidence is vital to us and any issue that breaches that trust will also impact our industry's long-term prospects and our reputation. We use Hazard Analysis Critical Control Point (HACCP) principles to identify relevant food safety controls. All operational staff are trained in food safety using documented procedures from the HACCP plan. We ensure compliance through audit of our sites and our suppliers of key raw materials, using a combination of internal and external food safety experts. We continue to invest in food safety processes in order to remain leading class in this area.

Bakkavor Foods Limited

Strategic Report for the Period from 1 January 2017 to 30 December 2017 (continued)

Health and safety ('H&S')

We have a duty of care to secure and protect the H&S of our employees. Our employee safety is paramount to our continued success and getting it wrong impacts both our employees and our leading reputation. We train all operational employees in H&S. We also employ H&S professionals responsible for reporting on H&S matters to the site's executive management team and putting into action site-specific H&S plans. H&S KPIs are reported monthly to Bakkavor Group's Management Board.

Loss of key employees

We have a highly experienced senior management team who are passionate about the business and who we consider to be a key competitive strength. We would be unable to fulfil our strategic growth objectives without the recruitment, development and retention of talented and committed people who understand and respect our values. We communicate our values internally in order to provide our employees with a cohesive framework. We recruit, appraise, reward and develop our employees against these values. We are committed to 'growing our own' people and provide relevant training to help our employees reach their potential. We have developed a 'talent pipeline' of employees identified for succession planning.

Market risks

Customer relationships

Customer care is one of our five values. We invest in significant resource to manage and develop deep and long-lasting relationships with our customers, ensuring that our customers have access to dedicated employees at all levels of the decision-making process.

Consumer understanding

Our diverse and innovative product range is critical to developing customer relations and future growth. Investing in product areas which fail or underperform is costly in terms of resource, profitability and our reputation with our customers. We regularly commission consumer research and communicate its results to our marketing and product development teams. Market trends are discussed at each Bakkavor Group Management Board meeting.

Commodity price inflation

The Company is exposed to fluctuating prices in significant areas of expenditure. In the short term, increases in raw material prices adversely affect individual product margins. In the longer term, the inability to pass on significant commodity cost increases within a reasonable timeframe would negatively impact the Company's profitability. Through the Group's central procurement team the Company aims to benefit from its scale and strong supplier relationships to achieve the requisite balance between price, quality, availability and service levels. Where possible it is the Company's policy to pass on commodity price increases. Equally, it seeks to reduce costs and make products as efficiently as possible in order to offset any delays in achieving price increases.

Financial risk management

Foreign currency risk

Foreign currency risk occurs at a transactional level on revenues and purchases in foreign currencies. It is the policy of the Company to enter into forward foreign exchange contracts and foreign exchange options to cover specific foreign currency payments and receipts. The Company also enters into forward foreign exchange contracts to manage the risk associated with anticipated sales and purchase transactions to minimise the exposure generated. The Company monitors foreign exchange rates to assess the potential impact on Company profits if exchange rates were to move significantly and a summary of hedges in place are reported monthly to the Board of Directors. The Company's main foreign exchange risk is to the Euro and US Dollar.

Bakkavor Foods Limited

Strategic Report for the Period from 1 January 2017 to 30 December 2017 (continued)

Credit risk

Credit risk refers to the risk of financial loss to the Company if a counterparty defaults on its contractual obligations of the loans and receivables at amortised cost held in the Balance sheet. The Company's credit risk is attributable to its trade and other receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. The Company's top four customers, all leading UK retailers, represent more than 86% (2016 - more than 86%) of the Company's revenue. These customers hold favourable credit ratings and consequently reduce the credit risk for the Company's overall trade receivables.

Liquidity risk

Liquidity risk refers to the risk that the Company may not be able to fund the day to day running of the business. Liquidity risk is reviewed by the Board of Directors on a monthly basis. The Company manages liquidity risk by monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

Employment of disabled persons

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

Equal opportunities

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

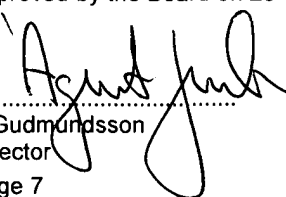
Employee involvement

The Company places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Company. This is achieved through formal and informal meetings, the intranet and quarterly briefings by the Company's management team. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests.

Research and development

The main focus of the Company's research and development expenditure is product innovation. The Company's on-going research and product development programme is supported by dedicated personnel and facilities and successfully introduces new products into its range each period. The amount of the Company's expenditure on research and development during the period is disclosed in note 5.

Approved by the Board on 20 September 2018 and signed on its behalf by:


.....
A Gudmundsson
Director
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Bakkavor Foods Limited

Independent Auditor's Report to the Members of Bakkavor Foods Limited

Opinion on the financial statements

Opinion

In our opinion the financial statements of Bakkavor Foods Limited (the 'Company'):

- give a true and fair view of the state of the Company's affairs as at 30 December 2017 and of its profit for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the profit and loss account;
- the statement of changes in equity;
- the balance sheet; and
- the related notes 1 to 29.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

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

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the director's use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the director has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Bakkavor Foods Limited

Independent Auditor's Report to the Members of Bakkavor Foods Limited (continued)

Other information

The director is responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of the director

As explained more fully in the Director's Responsibilities Statement, the director is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the director determines 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 director is responsible for assessing 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 director either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

Bakkavor Foods Limited

Independent Auditor's Report to the Members of Bakkavor Foods Limited (continued)

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit;

- the information given in the strategic report and the director's report for the financial period for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the director's report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the director's report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

Use of our report

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



.....
William Smith FCA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP,
Statutory Auditor
London
United Kingdom

20 September 2018

Bakkavor Foods Limited

Profit and Loss Account for the Period from 1 January 2017 to 30 December 2017

	Note	2017 £ 000	2016 £ 000
Turnover	4	1,530,602	1,492,815
Cost of sales		<u>(1,119,852)</u>	<u>(1,079,249)</u>
Gross profit		410,750	413,566
Distribution costs		(64,278)	(65,040)
Administrative expenses		(243,395)	(251,489)
Exceptional items	9	(3,122)	(2,790)
Impairment of assets	15, 16	<u>(4,523)</u>	<u>(8,122)</u>
Total administrative costs		(251,040)	(262,401)
Profit on disposal of investments		<u>-</u>	<u>543</u>
Operating profit	5	95,432	86,668
Other interest receivable and similar income	6	1,750	1,311
Interest payable and similar charges	7	(771)	(718)
Other (losses)/gains	8	<u>(4,073)</u>	<u>908</u>
Profit before tax		92,338	88,169
Tax on profit	13	<u>(18,207)</u>	<u>(17,363)</u>
Profit for the period		<u>74,131</u>	<u>70,806</u>

The above results were derived from continuing operations.

Bakkavor Foods Limited**Statement of Comprehensive Income for the Period from 1 January 2017 to 30 December 2017**

	2017 £ 000	2016 £ 000
Profit for the period	<u>74,131</u>	<u>70,806</u>
Items that will not be reclassified subsequently to profit or loss		
Actuarial gain/(loss) on defined benefit pension schemes before tax	12,324	(7,625)
Income tax effect	<u>(2,095)</u>	<u>1,370</u>
	<u>10,229</u>	<u>(6,255)</u>
Total comprehensive income for the period	<u>84,360</u>	<u>64,551</u>

Bakkavor Foods Limited

Statement of Changes in Equity for the Period from 1 January 2017 to 30 December 2017

	Share capital £ 000	Share premium £ 000	Translation reserve £ 000	Profit and loss account £ 000	Total £ 000
At 27 December 2015	39,906	165,094	(1,131)	310,529	514,398
Profit for the period	-	-	-	70,806	70,806
Other comprehensive loss	-	-	-	(6,255)	(6,255)
Total comprehensive income	-	-	-	64,551	64,551
Distributions to other group companies	-	-	-	(21,839)	(21,839)
Translation reserve transfer to profit and loss account	-	-	-	-	-
At 31 December 2016	39,906	165,094	(1,131)	353,241	557,110

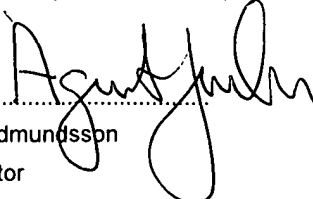
	Share capital £ 000	Share premium £ 000	Translation reserve £ 000	Profit and loss account £ 000	Total £ 000
At 1 January 2017	39,906	165,094	(1,131)	353,241	557,110
Profit for the period	-	-	-	74,131	74,131
Other comprehensive income	-	-	-	10,229	10,229
Total comprehensive income	-	-	-	84,360	84,360
Distributions to other group companies	-	-	-	-	-
Translation reserve transfer to profit and loss account	-	-	1,131	(1,131)	-
At 30 December 2017	39,906	165,094	-	436,470	641,470

Bakkavor Foods Limited

(Registration number: 01060806)
Balance Sheet as at 30 December 2017

	Note	2017 £ 000	2016 £ 000
Fixed assets			
Goodwill	14	240,306	240,306
Property, plant and equipment	15	240,971	222,843
Investments in subsidiaries	16	16,283	12,240
Retirement benefit asset	26	5,200	-
		<u>502,760</u>	<u>475,389</u>
Current assets			
Stocks	17	44,837	49,340
Debtors	18	504,563	445,755
Derivative financial instruments	19	1,613	2,791
Cash at bank and in hand		2,193	32,997
		<u>553,206</u>	<u>530,883</u>
Total assets		<u>1,055,966</u>	<u>1,006,272</u>
Creditors: Amounts falling due within one year	20	<u>(381,093)</u>	<u>(411,103)</u>
Net current assets		<u>172,113</u>	<u>119,780</u>
Total assets less current liabilities		674,873	595,169
Creditors: Amounts falling due after more than one year	22	(5,484)	(6,926)
Provisions	23	(17,258)	(14,546)
Deferred tax liabilities	13	(10,661)	(6,587)
Retirement benefit obligations	26	-	(10,000)
Net assets		<u>641,470</u>	<u>557,110</u>
Capital and reserves			
Called up share capital	24	39,906	39,906
Share premium	25	165,094	165,094
Translation reserve	25	-	(1,131)
Profit and loss account		<u>436,470</u>	<u>353,241</u>
Shareholders' funds		<u>641,470</u>	<u>557,110</u>

Approved and authorised for issue by the Director on 20 September 2018



 A Gudmundsson
 Director

Bakkavor Foods Limited

Notes to the Financial Statements for the Period from 1 January 2017 to 30 December 2017

1 General information

The Company is a private company limited by share capital incorporated and registered in England and Wales. The Company's registered office address can be found on page 1.

The principal activity of the Company is that of a leading provider of fresh prepared food products to some of the United Kingdom's most reputable and well known grocery retailers. These include Tesco, Marks and Spencer, J Sainsbury and Waitrose, who sell our products to their customers predominantly under their respective private labels. The Company operates within the Bakkavor Group plc group (the 'Group') and is a 100% owned subsidiary of Bakkavor Limited.

2 Accounting policies

Summary of significant accounting policies and key accounting estimates

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101, Reduced Disclosure Framework. As permitted under section 390 (3) of the Companies Act 2006, the Company has taken the option to end its financial period on the Saturday nearest to 31 December, as this is not more than 7 days after or before the end of the period dated 31 December. Where the fiscal year 2017 is quoted in these financial statements this relates to the 52 week period ended 30 December 2017. The fiscal year 2016 relates to the 53 week period ended 31 December 2016.

The financial statements have been prepared on the historical cost basis, adjusted for the fair value of financial instruments and are presented in the currency of the primary economic environment in which the Company operates. For the purpose of the financial statements, the results and financial position are expressed in Pounds Sterling, which is the functional currency of the Company.

Summary of disclosure exemptions

As permitted by Financial Reporting Standard 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash-flow statement, remuneration of key management personnel, standards not yet effective, impairment of assets and related party transactions. Where relevant, equivalent disclosures have been given in the group accounts of Bakkavor Group plc. The group accounts of Bakkavor Group plc are available to the public and can be obtained as set out in the parent and ultimate parent undertaking note.

Going concern

The Director has reviewed the historical trading performance of the Company and the forecasts through to September 2019, to assess the level of finance required by the Company. The going concern basis has been adopted in preparing these financial statements, refer to the Director's Report for the Director's consideration of going concern.

Bakkavor Foods Limited

Notes to the Financial Statements for the Period from 1 January 2017 to 30 December 2017 (continued)

2 Accounting policies (continued)

Exemption from preparing group accounts

The financial statements contain information about Bakkavor Foods Limited as an individual company and do not contain consolidated financial information as the parent of a group.

The Company is exempt under section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of Bakkavor Group plc, a company incorporated in the United Kingdom.

Changes in accounting policy

New standards, interpretations and amendments effective

The following have been applied for the first time from 1 January 2017 and have had no effect on the financial statements:

IAS 7 - Disclosure initiative

IAS 12 - Recognition of Deferred Tax Assets for unrealised losses

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and provision of services in the ordinary course of the Company's activities. Revenue is shown net of sales/value added tax, returns, rebates and discounts and after eliminating sales within the Company.

Revenue from the sale of these goods is recognised when all of the following conditions are satisfied:

- the Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that economic benefits associated with the transaction will flow into the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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

Bakkavor Foods Limited

Notes to the Financial Statements for the Period from 1 January 2017 to 30 December 2017 (continued)

2 Accounting policies (continued)

Customer deductions

Consistent with standard industry practice, the Company 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 Company's products. Sometimes the payment of this support is subject to the Company's customers performing specified actions or satisfying certain performance conditions associated with the purchase of products from the Company. 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 "customer deductions".

The Company 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 Company has a legal right of set-off and intends to offset against amounts due from that customer.

Finance income policy

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Company and the amount can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and the effective interest rate applicable.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established, provided that it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably.

Foreign currency transactions and balances

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into the respective functional currency of the entity at the rates prevailing on the reporting period date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the initial transaction dates.

Non-monetary items measured in terms of historical cost in a foreign currency are not retranslated.

Research and development

Research and development costs comprise all directly attributable costs necessary to create and produce new products which may be either new in design or modifications of existing products. Expenditure on research and development is recognised as an expense in the period in which it is incurred, except where development expenditure meets the criteria to be capitalised.

Exceptional items

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

Bakkavor Foods Limited

Notes to the Financial Statements for the Period from 1 January 2017 to 30 December 2017 (continued)

2 Accounting policies (continued)

Tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except that an amount attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the Company operates and generates taxable income.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements and on unused tax losses or tax credits in the Company. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

The carrying amount of deferred tax assets are reviewed at each reporting date and a valuation allowance is set up against deferred tax assets so that the net carrying amount equals the highest amount that is more likely than not to be recovered based on current or future taxable profit.

Where the Company transfers tax losses to another member of the group, the entity obtains an amount of compensation from the respective group member ('group relief payments') and vice versa. Such payments are treated as if they were income taxes to the extent that the intragroup payment is for an amount of tax that would otherwise have been paid by the paying company. If the compensation amount differs, the difference is treated as a distribution or a capital contribution as applicable.

Bakkavor Foods Limited

Notes to the Financial Statements for the Period from 1 January 2017 to 30 December 2017 (continued)

2 Accounting policies (continued)

Property, plant and equipment

Property, plant and equipment is stated in the balance sheet at cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The cost of property, plant and equipment includes directly attributable incremental costs incurred in their acquisition and installation.

Depreciation

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

Asset class	Depreciation method and rate
<i>Buildings</i>	<i>maximum period of 50 years</i>
<i>Plant and Machinery</i>	<i>1 to 20 years</i>
<i>Fixtures and equipment</i>	<i>3 to 5 years</i>

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

If in a subsequent period, the amount of impairment loss decreases, and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the profit and loss account.

Goodwill

Goodwill arising on the acquisition of an entity represents the excess of the cost of acquisition over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill is held in the currency of the acquired entity and revalued to the closing rate at each reporting period date.

Goodwill is not subject to amortisation but is tested for impairment. 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.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

The Company had invoked a true and fair override as permitted by paragraph 10(2) of Schedule 1 to the Regulations to overcome the requirement to write off goodwill over its useful economic life in paragraph 22 of Schedule 1 to the Regulations.

Bakkavor Foods Limited

Notes to the Financial Statements for the Period from 1 January 2017 to 30 December 2017 (continued)

2 Accounting policies (continued)

Investments

Investments in subsidiaries are included at cost less provision for impairment where necessary. An impairment loss is recognised in the Profit and Loss account when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and call deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Trade debtors

Trade debtors are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade debtors are recognised initially at the transaction price. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for the impairment of trade debtors is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the debtors.

Stock

Stocks are stated at the lower of cost and net realisable value. Cost is determined 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.

The cost of finished goods and work in progress comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the stocks to their present location and condition. At each reporting date, stocks are assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell; the impairment loss is recognised immediately in profit or loss.

Trade creditors

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade creditors are recognised initially at the transaction price and subsequently measured at amortised cost using the effective interest method.

Bakkavor Foods Limited

Notes to the Financial Statements for the Period from 1 January 2017 to 30 December 2017 (continued)

2 Accounting policies (continued)

Provisions

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

A restructuring provision is recognised when the Company has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and distinct from the ongoing activities of the entity.

Present obligations arising from onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Company 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.

Provisions are measured at the Director's best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material.

Leases

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

Finance leases

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

Operating leases

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

Share capital

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

Bakkavor Foods Limited

Notes to the Financial Statements for the Period from 1 January 2017 to 30 December 2017 (continued)

2 Accounting policies (continued)

Defined contribution pension obligation

A defined contribution plan is a pension plan under which fixed contributions are paid into a separate entity and the Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The contributions are recognised as employee benefit expense when they are due. If contribution payments exceed the contribution due for service, the excess is recognised as an asset.

Defined benefit pension obligation

Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the reporting date minus the fair value of plan assets. The defined benefit obligation is measured using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future payments by reference to market yields at the reporting date on high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses are charged or credited to other comprehensive income in the period in which they arise.

Past-service costs are recognised immediately in profit or loss.

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 Company or the amount of the obligation cannot be measured reliably. A contingent liability is not recognised but it is disclosed in the notes to the financial statements. When an outflow becomes probable, it is recognised as a provision.

Bakkavor Foods Limited

Notes to the Financial Statements for the Period from 1 January 2017 to 30 December 2017 (continued)

2 Accounting policies (continued)

Financial assets

Classification

Financial assets held by the Company are classified as 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment.

Recognition and measurement

Financial assets are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit and loss, which are initially measured at fair value.

Impairment

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

Financial liabilities

Classification

Financial liabilities held by the Company are classified as other financial liabilities. The classification is according to the substance of the contractual arrangements entered into.

Recognition and measurement

Financial liabilities 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.

Derivatives and hedging

The Company's activity exposes it primarily to the financial risk of changes in foreign currency exchange rates. The Company uses foreign exchange forward contracts to manage this exposure. Derivative financial instruments are not used 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. The Company has not applied hedge accounting and all derivatives are measured at fair value through profit and loss account.

Bakkavor Foods Limited

Notes to the Financial Statements for the Period from 1 January 2017 to 30 December 2017 (continued)

3 Critical accounting judgements and key sources of estimation uncertainty

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

Critical judgements in applying the Company's accounting policies

There are no critical judgements to be disclosed.

Key sources of estimation uncertainty

Pensions

The Company maintains a defined benefit group pension plan for which it has recorded a pension asset/liability. The pension asset/liability is based on an actuarial valuation that requires a number of assumptions including discount rate, mortality rates and actual return on plan assets that may necessitate material adjustments to this asset/liability in the future. The assumptions used by the Company are the best estimates based on historical trends and the composition of the work force. This is disclosed further in note 26.

Customer deductions

Management is required to make estimates in determining the amount and timing of recognition of customer deductions due in respect of sales to its customers. In determining the amount of customer deductions due for volume-related allowances in any period, management estimate whether customers will meet the purchase target volumes by the end of the arrangement, based on historical and forecast performance, and recognises this cost as a deduction from revenue over the period of the relevant arrangement. Where there are ongoing negotiations with customers over the level of deduction, the Company 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.

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, which require the use of estimates. The key estimates that can impact the value in use calculations are changes to the growth rates applied to derive a five-year forecast, or a movement in the discount rate applied to the future cash flows. These are key estimates as they are subjective in nature and significant assumptions is required and any changes to assumptions may lead to impairment charges being recognised. The Company has considered the impact of the assumptions used on the calculations and has conducted sensitivity analysis on the impairment tests of the CGUs carrying values. This is disclosed further in note 14.

Bakkavor Foods Limited

Notes to the Financial Statements for the Period from 1 January 2017 to 30 December 2017 (continued)

4 Turnover

The analysis of the Company's turnover for the period from continuing operations is as follows:

	2017 £ 000	2016 £ 000
Sale of goods to United Kingdom customers	1,523,499	1,489,409
Sale of goods to other United Kingdom group companies	7,103	3,406
	<u>1,530,602</u>	<u>1,492,815</u>

Major customers

In 2017 the Company's four largest customers accounted for 86.3% (2016: 86.5%) of total revenue. The Company does not enter into long-term contracts with its retail customers.

Each of these four customers accounts for a significant amount of the Company's revenue. The percentage of the Company's revenue from these customers is as follows:

	2017	2016
Customer A	35.9%	36.2%
Customer B	24.8%	24.8%
Customer C	13.8%	13.6%
Customer D	11.8%	11.9%

5 Operating profit

Arrived at after charging/(crediting)

	2017 £ 000	2016 £ 000
Depreciation of owned assets	29,749	27,898
Depreciation of leased assets	799	810
Cost of stock	714,131	674,932
Write down of stock	2,536	1,646
Research and development	5,719	6,052
Operating leases	15,407	15,046
Exceptional items	3,122	2,790
Impairment of assets	4,523	8,122
Loss/(profit) on disposal of PPE	303	(29)
Foreign exchange losses	2,213	1,844
Profit on disposal of investments	-	(543)
Staff costs	<u>392,272</u>	<u>381,501</u>

Bakkavor Foods Limited

Notes to the Financial Statements for the Period from 1 January 2017 to 30 December 2017 (continued)

6 Other interest receivable and similar income

	2017 £ 000	2016 £ 000
Other finance income	1,750	1,311

7 Interest payable and similar charges

	2017 £ 000	2016 £ 000
Interest on borrowings	42	56
Interest on obligations under finance leases	193	241
Unwinding of discount on provisions	261	234
Other finance costs	275	187
	<u>771</u>	<u>718</u>

8 Other (losses) and gains

The analysis of the Company's other (losses) and gains for the period is as follows:

	2017 £ 000	2016 £ 000
Changes in fair value of derivative financial instruments	(1,860)	2,752
Foreign currency losses	(2,213)	(1,844)
	<u>(4,073)</u>	<u>908</u>

9 Exceptional items

	2017 £ 000	2016 £ 000
Restructuring costs	3,122	1,256
Legal case	-	1,534
	<u>3,122</u>	<u>2,790</u>

The Company has incurred exceptional costs of £3,122,000, all of which relates to the cost of closing a site and moving related operations to other sites.

In 2016, the Company incurred exceptional costs of £2,790,000, of which £1,256,000 were attributable to redundancy costs arising from business losses affecting one of the Company's manufacturing sites. The remaining £1,534,000 related to legal and other costs in respect of an intellectual property dispute that had been settled before the period end.

Bakkavor Foods Limited

Notes to the Financial Statements for the Period from 1 January 2017 to 30 December 2017 (continued)

10 Staff costs

The aggregate payroll costs (including Director's remuneration) were as follows:

		2017	2016
	Note	£ 000	£ 000
Wages and salaries		352,355	343,915
Social security costs		33,204	30,571
Pension and other post-employment benefit costs	26	6,713	7,015
		<u>392,272</u>	<u>381,501</u>

The average number of persons employed by the Company (including the Director) during the period, analysed by category was as follows:

	2017	2016
	No.	No.
Production	14,400	14,181
Management and administration	1,332	1,220
Sales and distribution	713	715
	<u>16,445</u>	<u>16,116</u>

11 Director's remuneration

In respect of the highest paid director:

	2017	2016
	£ 000	£ 000
Remuneration	1,051	1,370
Company contributions to money purchase pension schemes	12	8
	<u>1,063</u>	<u>1,378</u>

12 Auditor's remuneration

	2017	2016
	£ 000	£ 000
Audit of the financial statements	<u>160</u>	<u>160</u>

Bakkavor Foods Limited

Notes to the Financial Statements for the Period from 1 January 2017 to 30 December 2017 (continued)

13 Taxation

Tax charged in the profit and loss account

	2017 £ 000	2016 £ 000
Current taxation		
Corporation tax - Current year	11,556	11,589
Corporation tax - Prior year	2	179
Group loss relief - Current year	4,808	5,458
	<u>16,366</u>	<u>17,226</u>
Deferred taxation		
Deferred tax - Current year	1,903	319
Deferred tax - Prior year	(62)	(182)
Total deferred taxation	<u>1,841</u>	<u>137</u>
Tax charge in the profit and loss account	<u>18,207</u>	<u>17,363</u>

Corporation tax is calculated at 19.25% (2016 - 20%) of the estimated result for the period. The tax for the period is reconciled to the profit and loss account as follows:

	2017 £ 000	2016 £ 000
Profit before tax	<u>92,338</u>	<u>88,169</u>
Corporation tax	17,775	17,634
Effect of income exempt from taxation	(126)	(318)
Effect of expenses not deductible in determining taxable profit (tax loss)	951	998
Group loss relief surrendered free of charge	-	(575)
Deferred tax credit relating to changes in tax rates or laws	(333)	(373)
Current tax prior year adjustment	2	179
Deferred tax prior year adjustment	<u>(62)</u>	<u>(182)</u>
Total tax charge	<u>18,207</u>	<u>17,363</u>

The UK corporation tax rate reduced from 20% to 19% from 1 April 2017. In accordance with the Finance Act 2016, the UK corporation tax rate will reduce to 17% in 2020.

Bakkavor Foods Limited

Notes to the Financial Statements for the Period from 1 January 2017 to 30 December 2017 (continued)

13 Taxation (continued)

Deferred tax

Deferred tax assets and liabilities

Deferred tax movement during the prior period:

	At 27 December 2015 £ 000	Recognised in income £ 000	Recognised in equity £ 000	At 31 December 2016 £ 000
Accelerated tax depreciation	(9,058)	154	-	(8,904)
Fair value movements on financial instruments	7	(522)	-	(515)
Other items	529	603	-	1,132
Pension benefit obligations	702	(372)	1,370	1,700
Share-based payment	-	-	-	-
Net tax assets/(liabilities)	(7,820)	(137)	1,370	(6,587)

Deferred tax movement during the period:

	At 1 January 2017 £ 000	Recognised in income £ 000	Transfer to Bakkavor Group plc £ 000	Recognised in equity £ 000	At 30 December 2017 £ 000
Accelerated tax depreciation	(8,904)	(1,465)	-	-	(10,369)
Fair value movements on financial instruments	(515)	353	-	-	(162)
Other items	1,132	(378)	-	-	754
Pension benefit obligations	1,700	(489)	-	(2,095)	(884)
Share-based payment	-	138	(138)	-	-
Net tax assets/(liabilities)	(6,587)	(1,841)	(138)	(2,095)	(10,661)

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

Group relief payments

Where the Company receives tax losses from another member of Bakkavor group, the Company pays an amount of compensation to the respective group member ('group relief payments'). Such payments are treated as if they were income taxes to the extent that the payment is for an amount of tax that would otherwise be paid by the Company. If the payment is more, then the excess is treated as a distribution to the surrendering group companies. The 2016 group relief payment for £21,839,000 was recorded as a 'Distribution to other group companies'. In 2017, the group relief payments were limited to the amount of tax that would otherwise be paid by the Company.

Bakkavor Foods Limited

Notes to the Financial Statements for the Period from 1 January 2017 to 30 December 2017 (continued)

14 Goodwill and intangible assets

	Goodwill £ 000	Other intangible assets £ 000	Total £ 000
Cost			
At 1 January 2017 and 30 December 2017	280,244	42,087	322,331
Amortisation and impairment			
At 1 January 2017 and 30 December 2017	39,938	42,087	82,025
Carrying amount			
At 31 December 2016 and 30 December 2017	240,306	-	240,306

15 Property, plant and equipment

	Land and buildings £ 000	Plant and machinery £ 000	Fixtures and equipment £ 000	Total £ 000
Cost				
At 1 January 2017	85,806	491,880	67,500	645,186
Additions	8,328	31,454	10,394	50,176
Disposals	(3,336)	(19,475)	(3,443)	(26,254)
At 30 December 2017	90,798	503,859	74,451	669,108
Depreciation and impairment				
At 1 January 2017	53,902	321,732	46,709	422,343
Charge for the period	3,493	23,168	3,887	30,548
Eliminated on disposal	(2,943)	(18,489)	(3,322)	(24,754)
At 30 December 2017	54,452	326,411	47,274	428,137
Carrying amount				
At 30 December 2017	36,346	177,448	27,177	240,971
At 31 December 2016	31,904	170,148	20,791	222,843

Impairment

During 2017, Bakkavor Foods Limited has made no impairment of property, plant and equipment (2016 - £7,210,000). The impairments were determined by comparing the carrying values of the assets with their recoverable amount i.e. the higher of the asset's fair value less costs of disposal and its value in use. The recoverable amount in the case of each asset was its fair value less costs of disposal. The amount of impairment loss included in profit and loss is £Nil (2016 - £7,210,000).

Bakkavor Foods Limited

Notes to the Financial Statements for the Period from 1 January 2017 to 30 December 2017 (continued)

15 Property, plant and equipment (continued)

Assets held under finance leases and hire purchase contracts

The net carrying amount of property, plant and equipment includes the following amounts in respect of assets held under finance leases and hire purchase contracts:

	2017	2016
	£ 000	£ 000
Plant and machinery	3,703	4,557

Contractual commitments for the acquisition of property, plant and equipment

Contractual commitments for the acquisition of property, plant and equipment were as follows:

	2017	2016
	£ 000	£ 000
Property, plant and equipment	7,474	2,585

16 Investments in subsidiaries and associates

Subsidiaries	£ 000
Cost or valuation	
At 1 January 2017	25,660
Additions	8,566
Write off investment	(77)
At 30 December 2017	34,149
Impairment	
At 1 January 2017	13,420
Impairment	4,523
Write off investment	(77)
At 30 December 2017	17,866
Carrying amount	
At 30 December 2017	16,283
At 31 December 2016	12,240

Bakkavor Foods Limited

Notes to the Financial Statements for the Period from 1 January 2017 to 30 December 2017 (continued)

16 Investments in subsidiaries and associates (continued)

On 5 July 2017, Bakkavor Foods Limited purchased Bakkavor Estates Limited for £8,566,136 from Bakkavor Finance (3) Limited.

During 2017, Bakkavor Foods Limited impaired £4,523,000 of investments in subsidiaries and associates. This followed an impairment review which highlighted that the carrying value of Anglia Crown Limited and Bakkavor Maroc Limited, both of which are a subsidiary companies, were greater than their recoverable amount.

During 2016, Bakkavor Foods Limited impaired £912,000 of investments in subsidiaries and associates. This followed an impairment review which highlighted that the carrying value of Anglia Crown Limited, a subsidiary company, was greater than its recoverable amount.

Details of undertakings

Details of the investments in which the Company holds share capital as at 30 December 2017 are as follows:

Name of subsidiary	Principal activity	Registered office	Proportion of voting rights and shares held	
			2017	2016
English Village Salads Limited*	Non-trading	Fitzroy Place, 5th Floor, 8 Mortimer Street, London, England, W1T 3JJ. United Kingdom	100%	100%
Anglia Crown Limited*	Preparation and marketing of fresh prepared foods	Fitzroy Place, 5th Floor, 8 Mortimer Street, London, England, W1T 3JJ. United Kingdom	100%	100%
Bakkavor Fresh Cook Limited*	Preparation and marketing of fresh prepared foods	Fitzroy Place, 5th Floor, 8 Mortimer Street, London, England, W1T 3JJ. United Kingdom	100%	100%
Bakkavor Brothers Limited*	Dormant non-trading company	Fitzroy Place, 5th Floor, 8 Mortimer Street, London, England, W1T 3JJ. United Kingdom	100%	100%
Hitchen Foods Limited*	Dormant non-trading company	Fitzroy Place, 5th Floor, 8 Mortimer Street, London, England, W1T 3JJ. United Kingdom	100%	100%

Bakkavor Foods Limited

Notes to the Financial Statements for the Period from 1 January 2017 to 30 December 2017 (continued)

16 Investments in subsidiaries and associates (continued)

Name of subsidiary	Principal activity	Registered office	Proportion of voting rights and shares held	
			2017	2016
Laurens Patisseries Limited*	Dormant non-trading company	Fitzroy Place, 5th Floor, 8 Mortimer Street, London, England, W1T 3JJ. United Kingdom	100%	100%
Kent Salads Limited*	Dormant non-trading company	Fitzroy Place, 5th Floor, 8 Mortimer Street, London, England, W1T 3JJ. United Kingdom	100%	100%
Notsallow 256 Limited*	Dormant non-trading company	Fitzroy Place, 5th Floor, 8 Mortimer Street, London, England, W1T 3JJ. United Kingdom	100%	100%
Bakkavor Central Finance Limited*	Customer invoicing and financing of receivables	West Marsh Road, Spalding, Lincolnshire, PE11 2BB. United Kingdom	100%	100%
Bakkavor Iberica S.L.U.*	Distribution	Calle Cartagena 57, 1 D Torre Pacheco, Murcia CP 30700. Spain	100%	100%
Exotic Farm Prepared Limited	Dormant non-trading company	Fitzroy Place, 5th Floor, 8 Mortimer Street, London, England, W1T 3JJ. United Kingdom	100%	100%
Butterdean Products Limited	Dormant non-trading company	Fitzroy Place, 5th Floor, 8 Mortimer Street, London, England, W1T 3JJ. United Kingdom	100%	100%
Cucina Sano Limited	Dormant non-trading company	Fitzroy Place, 5th Floor, 8 Mortimer Street, London, England, W1T 3JJ. United Kingdom	100%	100%
Exotic Farm Produce Limited	Dormant non-trading company	Fitzroy Place, 5th Floor, 8 Mortimer Street, London, England, W1T 3JJ. United Kingdom	100%	100%

Bakkavor Foods Limited

Notes to the Financial Statements for the Period from 1 January 2017 to 30 December 2017 (continued)

16 Investments in subsidiaries and associates (continued)

Name of subsidiary	Principal activity	Registered office	Proportion of voting rights and shares held	
			2017	2016
Bakkavor Australia Pty Limited*	Holding company	Henry Davis York, 44 Martin Place, Sydney, NSW 2000. Australia	100%	100%
BV Restaurant Group Limited*	Production and distribution of fresh prepared foods	Fitzroy Place, 5th Floor, 8 Mortimer Street, London, England, W1T 3JJ. United Kingdom	100%	100%
Bakkavor Estates Limited *	Property management	West Marsh Road, Spalding, Lincolnshire, England, PE11 2BB. United Kingdom	100%	0%

* indicates direct investment of Bakkavor Foods Limited

17 Stock

	2017	2016
	£ 000	£ 000
Raw materials and packaging	39,478	43,091
Work in progress	1,603	1,642
Finished goods	3,756	4,607
	<u>44,837</u>	<u>49,340</u>

There is no significant difference between the replacement cost of inventory and carrying amount.

Bakkavor Foods Limited

Notes to the Financial Statements for the Period from 1 January 2017 to 30 December 2017 (continued)

18 Debtors

	2017 £ 000	2016 £ 000
Trade debtors	99,958	139,454
Provision for impairment of trade debtors	<u>(1,307)</u>	<u>(904)</u>
Net trade debtors	98,651	138,550
Amounts due from group companies	381,597	283,723
Other debtors	16,960	14,803
Prepayments	<u>7,355</u>	<u>8,679</u>
Total current trade and other debtors	<u>504,563</u>	<u>445,755</u>

Amounts due from group companies are unsecured, have interest charged of 0% - 5.35% and are repayable on demand.

19 Other financial assets

	2017 £ 000	2016 £ 000
Current financial assets		
Derivative financial instruments	<u>1,613</u>	<u>2,791</u>

The derivative financial instruments relate to the fair value of foreign exchange contracts. The Company enters into such contracts on behalf of the Bakkavor Group. It is the policy of the Group to enter into foreign exchange contracts to cover specific foreign currency payments and receipts. The Group also enters into foreign exchange contracts to manage the risk associated with anticipated sales and purchase transactions to minimise the exposure generated. Financial assets/liabilities are stated at fair value, with any resultant gain or loss recognised in the profit and loss account.

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Notes to the Financial Statements for the Period from 1 January 2017 to 30 December 2017 (continued)

20 Creditors: Amounts falling due within one year

	2017 £ 000	2016 £ 000
Trade creditors	176,786	180,535
Amounts due to group companies	30,635	26,133
Deferred income	667	667
Other creditors	20,253	17,652
Corporate tax payable	9,769	10,473
Obligations held under finance leases	782	662
Derivative financial instruments	538	-
Accruals	141,663	174,981
	<u>381,093</u>	<u>411,103</u>

Amounts due to group companies are unsecured, are non interest-bearing and are repayable on demand.

21 Obligations under leases and hire purchase contracts

Finance leases

	Minimum lease payments £ 000	Interest £ 000	Present value £ 000
2017			
Within one year	933	(151)	782
In two to five years	2,510	(221)	2,289
In over five years	910	(103)	807
	<u>4,353</u>	<u>(475)</u>	<u>3,878</u>
	Minimum lease payments £ 000	Interest £ 000	Present value £ 000
2016			
Within one year	915	(253)	662
In two to five years	3,074	(311)	2,763
In over five years	1,303	(51)	1,252
	<u>5,292</u>	<u>(615)</u>	<u>4,677</u>

Bakkavor Foods Limited

Notes to the Financial Statements for the Period from 1 January 2017 to 30 December 2017 (continued)

21 Obligations under leases and hire purchase contracts (continued)

The present values of future finance lease payments are analysed as follows:

	2017	2016
	£ 000	£ 000
Current liabilities	782	662
Non-current liabilities	3,096	4,015
	<u>3,878</u>	<u>4,677</u>

The amount of contingent finance lease payments recognised as an expense during the period is £Nil (2016 - £Nil).

The average effective interest rate for finance lease liabilities in the period was 4.45% (2016 - 4.64%).

Operating leases

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

The total future value of minimum lease payments is as follows:

	2017	2016
	£ 000	£ 000
Within one year	11,941	11,579
In two to five years	56,593	45,480
In over five years	45,685	65,430
	<u>114,219</u>	<u>122,489</u>

The amount of non-cancellable operating lease payments recognised as an expense during the period was £15,407,000 (2016 - £15,046,000)

22 Creditors: Amounts falling due after one year

	2017	2016
	£ 000	£ 000
Deferred income	2,165	2,833
Obligations held under finance leases	3,096	4,015
Derivative financial instruments	223	78
	<u>5,484</u>	<u>6,926</u>

Bakkavor Foods Limited

Notes to the Financial Statements for the Period from 1 January 2017 to 30 December 2017 (continued)

23 Other provisions

	Onerous contracts and dilapidations £ 000
At 1 January 2017	14,546
Increase in existing provisions	4,295
Provisions used	(500)
Unused provision reversed	(1,344)
Unwinding of discount	261
At 30 December 2017	<u>17,258</u>

Onerous lease provisions of £896,000 mostly relate to two vacant properties where leases end in 2019 and 2020. The provisions will be utilised over the term of the individual leases to which they relate.

Dilapidation provisions of £16,362,000 relate to estimated obligations under various property leases to ensure that, at the end of the leases, the buildings are in the condition agreed with the landlords. The provisions will be utilised at the end of the individual lease terms to which they relate, being 2 to 33 years.

24 Share capital

Allotted, called up and fully paid shares

	30 December 2017		31 December 2016	
	No. 000	£ 000	No. 000	£ 000
Ordinary shares of £1 each	39,906	39,906	39,906	39,906

25 Reserves

Share premium

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

Translation reserve

The translation reserve relates to foreign exchange movements of the French branch which was disposed of in 2013. This has now been transferred to the profit and loss account.

Bakkavor Foods Limited

Notes to the Financial Statements for the Period from 1 January 2017 to 30 December 2017 (continued)

26 Pension and other schemes

The Company operates a number of pension schemes in the UK. 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.

Defined contribution pension scheme

The defined contribution scheme is open to all UK employees joining the Company (full or part time). The total cost charged to income of £5,713,000 (2016 - £5,915,000) represents contributions payable to these schemes by the Company at rates specified in the rules of the plans. At 30 December 2017 £1,042,000 was owing for the defined contribution scheme (2016 - £1,009,000).

Defined benefit pension schemes

The Company participates in a funded defined benefit scheme which was closed for future accrual in March 2011. An actuarial valuation of Scheme assets and the present value of the defined benefit obligation for funding purposes was carried out as at 31 March 2016. The results were updated for IAS 19 'Employee Benefits' purposes to 30 December 2017 by a qualified independent actuary with Willis Towers Watson. Under IAS 19 valuation principles a surplus of £5,200,000 (2016 - deficit of £10,000,000) has been recognised in the Balance Sheet.

A charge of £1,000,000 (2016 - £1,100,000) has been recognised in the profit and loss account during the period.

For more information on Bakkavor Group Pension Schemes, please refer to note 37 within the Bakkavor Group plc Annual Report 2017.

27 Contingent liabilities

The Company may from time to time, and in the normal course of business, be subject to claims from customers and counterparties. The Company reviews any claims to determine if there is any potential financial loss to the Company. As at 30 December 2017, there were no legal claims or potential claims against the Company (2016 - £nil) and therefore no provision is considered necessary in the financial statements.

The Company, along with certain other group companies, is a guarantor of the Group debt facilities. The total amount of Group debt facilities that this relates to is £447.5 million (2016 - £205 million).

28 Non adjusting events after the financial period

On 2 July 2018 the Company sold its shareholding in Anglia Crown Limited, a 100% owned shareholding at the balance sheet date.

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Notes to the Financial Statements for the Period from 1 January 2017 to 30 December 2017 (continued)

29 Parent and ultimate parent undertaking

The Company's immediate parent is Bakkavor Limited.

The ultimate parent and ultimate controlling party is Bakkavor Group plc, a company registered in the United Kingdom.

The most senior parent entity producing publicly available financial statements is Bakkavor Group plc. The smallest group into which the accounts are consolidated is Bakkavor Finance (2) plc. These financial statements are available upon request from Fitzroy Place, 5th Floor, 8 Mortimer Street, London, W1T 3JJ, United Kingdom.