

Registration number: 01060806

Bakkavor Foods Limited

Annual Report and Financial Statements

for the Period from 26 December 2021 to 31 December 2022

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Bakkavor Foods Limited

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Bakkavor Foods Limited Company Information

Directors	M Edwards B Waldron
Company secretary	A Tagoe-Bannerman
Registered office	Fitzroy Place 5th Floor 8 Mortimer Street London England W1T 3JJ
Bankers	Barclays Bank PLC Multinational Corporates One Churchill Place London E14 5HP
Independent Auditors	PricewaterhouseCoopers LLP 1 Embankment Place London WC2N 6RH

Bakkavor Foods Limited

Directors' Report for the Period from 26 December 2021 to 31 December 2022

The Directors present their report and the audited Financial Statements of Bakkavor Foods Limited (the 'Company'), for the 53 week period from 26 December 2021 to 31 December 2022 ('2022'). Comparatives are for the 52 week period from 27 December 2020 to 25 December 2021 ('2021').

Matters of strategic importance included within the Strategic Report

The following items are requirements of a Directors' Report which are fully disclosed within the Strategic Report of this Annual Report:

- Fair review of the business;
- Dividends;
- Principal risks and uncertainties;
- Employment of disabled persons;
- Financial risk management;
- Research and development; and
- Future development of the Company.

Corporate Governance Statement

For the period ended 31 December 2022 under The Companies (Miscellaneous Reporting) Regulations 2018, the Company has applied the Wates Corporate Governance Principles for Large Private Companies ('the Wates Principles') which can be found at www.wates.co.uk/who-we-are/corporate-governance. Set out on pages 5 to 17 is an explanation of how the Wates Principles have been applied during the 2022 financial year.

Colleague Engagement

The Directors of the Company sit on both the Management Board and Group Board, and through a number of channels have oversight of the concerns and suggestions of colleagues and wider colleague engagement, which in turn, shape the decision-making process for the Company. Feedback, suggestions, and concerns from colleagues across the business are communicated to members of the Management Board through regular updates from the Site and Group Employee Forums and via the 'Speak Up!' whistleblowing hotline. The Management Board reports this to the Group Board at Group Board meetings.

Further information on the Company's statement on engagement with, and having regard to, the interests of employees, is included in the Bakkavor Group plc Annual Report and Accounts 2022 ("the Group's Annual Report"), in the 'Our People' section on page 32 and the 'Stakeholder Engagement' section on page 67.

Engagement with other Stakeholders

The Directors of the Company sit on both the Management Board and Group Board, and through a number of channels have oversight of stakeholder views, which in turn, shape the decision-making process for the Company. The Management Board oversee the proactive engagement with suppliers, customers, investors and the communities in which we operate, and receive regular updates on stakeholder engagement which they report to the Group Board at Group Board meetings.

For further information on the Company's statement on engagement with, and having regard to, the interests of its key stakeholders, please see the Group's Annual Report & Accounts, in the 'Stakeholder Engagement' section on pages 66 to 71, and the Group Board's key activities set out on pages 101 to 106.

Bakkavor Foods Limited

Directors' Report for the Period from 26 December 2021 to 31 December 2022

(continued)

Principal activities

The Company is a leading provider of fresh prepared food products to the major grocery retailers in the United Kingdom. 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 manufactures products across four core categories; meals, pizza and bread, salads and desserts. The Company operates within the Bakkavor Group plc group (the 'Group') and is a 100% owned subsidiary of Bakkavor Limited.

Political donations

No political donations were made during the financial period.

Going concern

The Directors have reviewed the historical trading performance of the Company and the forecasts for the 12 month period through to September 2024.

The Directors, in their detailed consideration of going concern, have reviewed the Company'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 Company's access to the Group's financing arrangements and the level of available liquidity under the Group's financing facilities. The Directors have carried out a robust assessment of the significant risks currently facing the Company and the Group. This has included scenario planning on the implications of further inflation and the potential impact of lower sales volumes from reduced consumer demand in response to increasing retail prices.

Having taken these factors into account under the scenario, which is considered to be severe but plausible, 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 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, they continue to adopt the going concern basis in preparing the Financial Statements.

Directors' of the Company

The directors of the Company who were in office during the period and up to the date of signing the Financial Statements were as follows:

A Gudmundsson (resigned 1 November 2022)

M Edwards

B Waldron

Directors' indemnities

The Company has made qualifying third party indemnity provisions for the Directors which have been in force throughout the financial period and remain in force as at the date of this report.

Bakkavor Foods Limited

Directors' Report for the Period from 26 December 2021 to 31 December 2022 (continued)

Directors' Responsibilities Statement

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

Company law (the Companies Act 2006) requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).

Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these Financial Statements, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, 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 Company will continue in business.

The Directors are responsible for safeguarding the assets of the 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 Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Financial Statements comply with the Companies Act 2006.

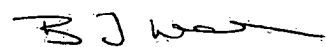
Directors' confirmations

In the case of each director in office at the date the Directors' Report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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 6 September 2023 and signed on its behalf by:



B Waldron
Director

Bakkavor Foods Limited

Strategic Report for the Period from 26 December 2021 to 31 December 2022

The Directors present their Strategic Report for the period from 26 December 2021 to 31 December 2022.

Section 172 (1) of the Companies Act 2006 (the 'Act') Statement

The Company's operations account for 83% of the turnover of Bakkavor Group plc ("the Group"). The governance is structured so that the Directors of the Company are supported by the Management Board, which, in turn, reports to the board of directors of the Group ("the Group Board") and the Group Board Audit & Risk, Nomination, ESG and Remuneration Committees ("the Group Board Committees"). The Directors of the Company sit on both the Management Board and Group Board.

The Wates Corporate Governance Principles for Large Private Companies ('the Wates Principles'), which can be found at www.wates.co.uk/who-we-are/corporate-governance, serve as the framework to demonstrate how the Directors of the Company had regard for the matters set out in s172 (1)(a) to (f) of the Act when performing their duties, including how the Directors engaged with and considered the interests of stakeholders including colleagues, customers, suppliers, investors and communities.

The matters under Section 172 (1) of the Act have also been considered to an appropriate extent by the Management Board and the Group Board in relation both to the Company and the Group. To the extent necessary for an understanding of the development, performance and position of the Company, an explanation of how the Group Board has considered the matters set out in Section 172(1) of the Act is set out in the Group's Annual Report on pages 66 to 71, which does not form part of this report.

Principle 1 - Purpose and Leadership

"To develop and promote the purpose of the Company, and ensure that its values, strategy and culture align with that purpose."

Purpose

The Company operates within the Group and is a 100% owned subsidiary of Bakkavor Limited. The Company's principal activity is that of a leading provider of fresh prepared food products to grocery retailers in the United Kingdom, which include Tesco, Marks and Spencer, J Sainsbury and Waitrose, who sell the Company's products predominantly under their respective private labels.

The Company's vision and purpose are aligned to that of the Group, which is set by the Group Board, and is supported by the Group's culture and strategy.

Our Vision: To lead the way in bringing innovative, great-tasting, freshly prepared food to people across our markets.

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

Our Culture: To empower and support all our stakeholders by living our values:

- Respect and trust each other;
- Keep the customer at the heart of what we do;
- Getting it right, keeping it right; and
- Be proud of what we do.

The Group Board provides effective and entrepreneurial leadership of the whole Group by setting the long-term strategic direction of the Group and overseeing and challenging management's implementation of the strategy, as well as establishing the 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.

All Directors act with integrity and lead by example to promote the desired culture: to empower and support our stakeholders by living our values. The Group Board is responsible for assessing the Group's culture, ensuring it is closely aligned with our strategic priorities which are underpinned by our focus on operational excellence and being a responsible, caring and trusted partner for all our stakeholders.

Bakkavor Foods Limited

Strategic Report for the Period from 26 December 2021 to 31 December 2022

(continued)

The Directors of the Company, supported by the Management Board, are responsible for the overall implementation of the Company's purpose and strategic direction, taking into account the needs of all relevant stakeholders.

The Management Board provides the Group Board with updates on the key people developments and areas of focus across the Group, including modernising HR systems, investing in leadership capabilities and improving talent development and succession planning processes. The Group Board also receives regular updates on the culture, Bakkavor's values and employee engagement initiatives, including the results of the Employee Engagement Survey and the work of the Wellbeing Steering Committee in relation to colleague support across physical, emotional and financial wellbeing.

The Management Board and Group Board assess and monitor the culture by dedicating time at Board meetings for updates from the Chief People Officer. This covers discussions on culture, values and employee/workforce matters, inclusion and diversity, monitoring the levels and nature of whistleblowing reports, as well as monitoring absenteeism and employee turnover.

Strategy

The Company's strategy encompasses three of the four pillars of the Group's strategy; UK: Drive returns by leveraging number one market position; Excellence: Deliver superior performance through operational excellence; and Trust: Be a trusted partner for our people, customers, suppliers and communities.

UK: Drive returns by leveraging number one market position

The Company's strategy in the UK is to drive financial returns in the Fresh Prepared Food ("FPF") market and strengthen our business for the benefit of all stakeholders.

Our key drivers:

- Leverage our leading market insights, product development expertise and breadth of food production capabilities to develop products and propositions that delight our customers and consumers.
- Utilise our scale to develop, prepare and distribute our products with a more efficient and sustainable use of resources.
- Leverage our customer relationships and market leadership to pursue profitable growth opportunities that allow us to create value for our shareholders.
- Invest in attracting and developing talented individuals to retain our leading position into the future.

What the Company has achieved:

- Outperformed the FPF market and increased our market share, in a period when consumer demand has been under pressure, through strong underlying performance and business wins across multiple customers in meals, salads and desserts.
- Grew The Delicious Dessert Company brand through increased distribution and new product launches to become the fifth largest desserts brand in the UK FPF market.

Bakkavor Foods Limited

Strategic Report for the Period from 26 December 2021 to 31 December 2022 (continued)

- Leveraged our breadth of capability to support a strategic customer in stretching one of its brands into new categories. Delivered a 60% year-on-year increase in our sales under this brand from market share gains, launching new products across stir-fry, dressed salads and food-to-go, combined with post-Covid recovery in volumes.
- Responded to changing consumer behaviour and inflationary pressures on our cost base by adapting our ranges to deliver great value products, whilst maintaining quality. For example, we removed 127 tonnes of packaging across the annual supply of a range of ready meals, which helped reduce cost and plastic content.
- Collaborated with our customers to successfully recover the majority of inflation across our cost base. Used a combination of pass-through mechanisms, traditional pricing discussions and self-help measures across performance improvement, value optimisation and tight cost control.

Our focus for 2023 and beyond

Under the Group's plan to protect profits, in the UK we are focused on driving returns:

- Drive an aggressive plan to mitigate the impact of ongoing inflation and volume pressures by leveraging our scale and strength, working collaboratively with our customers to recover inflation, maximise value optimisation opportunities across ranges, and implement specific cost and efficiency plans.
- Consolidate our UK footprint with the closure of two sites in Q1 2023 to reduce our cost base. Volume to transfer to existing sites where we have invested in capacity and capability.
- Embed our new leadership structure and deliver synergies from aligning our UK business around two sectors: Meals and Bakery.
- Streamline our UK structure by moving to functional reporting of our HR and Finance teams.

Excellence: Deliver superior performance through operational excellence

The Company continues to invest in our colleagues and assets to generate operational efficiencies and maintain the highest technical standards and service levels across our footprint.

Our key drivers:

- Identify opportunities to improve efficiency through our centralised, highly-skilled Operational Excellence team.
- Enhance productivity through automation investments and colleague training, with a focus on engineering skills.
- Uphold the highest technical standards of food safety and health and safety, for the benefit of our colleagues, customers and consumers.
- Establish a resilient and efficient global sourcing platform, supported by our dedicated teams in the UK, Spain and China.
- Maintain our market-leading service levels through agile manufacturing and embedded resource within the supply chain.

What we have achieved:

- Taken decisive action to protect profits against persisting inflation and supply chain disruption, with annualised savings of £25m (£15m in FY23). Includes proposed closure of two UK sites, creation of a leaner organisational structure and an enhanced focus on managing cash.
- Continued roll-out of our new smart manufacturing system; installed in all but one of our UK factories, with targeted direct labour savings of up to 1% of revenue, equivalent to c.5% reduction in UK direct labour costs.

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Strategic Report for the Period from 26 December 2021 to 31 December 2022
(continued)

- Invested in new equipment and capabilities to accommodate business wins, increase automation and reduce waste and energy consumption. This included upgrading of LED lighting across 20 UK sites to underpin annual energy savings of 8.8 GWh and 1,886 tCO₂ e to support our ESG agenda.
- Provided best-in-class service levels to our UK customers, including a well-executed Christmas period, maintaining our strong service with deliveries on time and in full, despite persistent global supply chain challenges.
- Maintained industry-leading technical standards across the Group.
- Upgraded our engineering apprenticeship scheme, with a step up in targeted skills and enrolment (30 new apprentices in 2022). Also launched new partnerships, including one with the University of Birmingham.

Our focus for 2023 and beyond

Under the Group's plan to protect profits, in the UK we are focused on driving returns:

- Deliver on our plan to close two UK sites, ensuring a smooth transfer of volume to our other sites and secure targeted savings.
- Embed our new UK sector structures, consolidated from four to two sectors; Meals and Bakery.
- Drive manufacturing efficiencies through automation, data-driven control of materials and labour, improved training programmes and targeted external support.
- Maintain our industry-leading technical standards through colleague training, targeted site investments and sharing of best practices.
- Invest in people development and upskilling to build capabilities and improve retention, including through our award-winning apprenticeship programme.

Trust: Be a trusted partner for our people, customers, suppliers and communities

We strive to be a responsible, caring and trusted partner for all our stakeholders, and a positive force in our interactions with the world around us.

Our key drivers:

- Live our values by striving to do the right thing for our colleagues, customers, suppliers and communities.
- Provide our people with a great place to work where they feel valued, included and inspired to perform at their best.
- Be a responsible global business by reducing our environmental footprint and maintaining high ethical standards across our supply chain, in collaboration with our customers and suppliers.
- Support our immediate communities through charity partnerships and local grassroots initiatives.

What we have achieved:

- Lowered Group net carbon emissions by 18.9% in 2022 through measures across all regions that reduced electricity and gas consumption, and minimised emissions from refrigerant gases to the lowest level since Group-wide measurement began in 2017. Emissions reduced significantly across UK, by 15.3% in 2022.
- Reduced UK food waste through improvements in our production processes and stepped up food redistribution efforts.
- Maintained health and safety performance well above industry averages; UK >7 day accident rate of 321 per 100k employees (down 3.9% from 334 per 100k in 2021) and outperformed the industry benchmark by 63%.

Bakkavor Foods Limited

Strategic Report for the Period from 26 December 2021 to 31 December 2022

(continued)

- Collaborated with our UK customers to remove 2,429 tonnes of plastic packaging through product redesign and increased recyclability - a 12% reduction achieved in a year.
- Promoted inclusion and diversity and wellbeing across our business through a Wellbeing Strategy and Toolkit, female mentoring programmes, and inclusion campaigns and activity.
- Over 670 factory-based UK colleagues completed the Front-line Leaders Programme, giving them the skills to reach their potential and perform as leaders in our business.

Our focus for 2023 and beyond

Under the Group's plan to protect profits, in the UK we are focused on driving returns:

- Following the ESG materiality assessment update in 2022, we have clarity on our three priority issues; Climate and Net Zero, Food Waste, and Environmentally Sustainable Sourcing.
- Continue to focus on collating accurate data and ensuring our reporting processes are robust on our non-financial KPIs.
- Working towards our 2040 Net Zero commitment by conducting site engineering assessments alongside smart energy monitoring and audits. This will deliver a detailed picture of the decarbonisation challenge and opportunity ahead, and the investment required.
- Remain focused on offering fair pay and relevant benefits for our colleagues, as well as developing action plans to address colleague feedback from the 2022 Employee Engagement Survey.
- Continue our commitment to respond to change effectively with regards to our people, providing progression opportunities, embedding our values and providing relevant benefits.
- With the tough operating environment expected to continue through 2023, we will continue to work alongside our customers and suppliers to support and be a trusted partner to them.

For further information on our Group Strategy refer to pages 22 to 31 of the Group's Annual Report.

Principle 2 - Board Composition

"Effective board composition requires an effective Chair and a balance of skills, background, experience and knowledge, with individual directors having sufficient capacity to make a valuable contribution. The size of a board should be guided by the scale and complexity of the company."

The Directors of the Company

The Directors of the Company are Mike Edwards (appointed on 29 June 2021) and Ben Waldron (appointed on 29 June 2021). Agust Gudmundsson resigned as a director of the Company on 1 November 2022.

The Directors of the Company are supported by the Management Board for the day-to-day management of the Company. The Management Board is comprised of the following Senior Managers with the appropriate combination of commercial, technical, and financial skills and high-level understanding of the Company's business and its impact on key stakeholders:

- Chief Executive Officer - Mike Edwards
- Chief Financial Officer & Asia CEO - Ben Waldron
- Chief People Officer - Donna-Maria Lee
- Managing Director - Meals - Dave Selleck
- Managing Director - Bakery - Shona Taylor

Bakkavor Foods Limited
Strategic Report for the Period from 26 December 2021 to 31 December 2022
(continued)

The Management Board

The Management Board implements the strategic objectives set by the Company, 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 weekly, monthly and quarterly performance reporting and budget updates.

The responsibilities delegated to the Management Board include, but are not limited to, the following areas:

- Preparing strategic proposals, corporate plans and budgets
- Executing the strategy agreed upon by the Company, including the Trusted Partner ESG strategy
- Executing actions in relation to key decisions such as investments, mergers and acquisitions
- Establishing a system of internal control and risk management
- Monitoring performance and evaluation of health and safety
- Engagement with stakeholders, including workforce engagement
- Review and approval of revised policies prior to approval by the Group Board, such as the Anti-Bribery and Business Ethics Policy, Inclusion and Diversity Policy, Whistleblowing Policy and the Charity and Political Donations Policy.

It is a core feature of good corporate governance that the Directors of the Company and the Management Board have an appropriate balance of skills, experience, independence and knowledge to enable the effective discharge of their duties and responsibilities. The Directors of the Company have delegated responsibility to the Group Nomination Committee for ensuring that the Management Board and Group Board have the appropriate balance of skills, experience, independence and knowledge.

The Group Nomination Committee oversees Management Board appointments and succession planning. Proposed appointments to the Management Board follow an open and transparent recruitment process and candidates are assessed on merit against objective criteria. On 29 September 2022, it was announced that Agust Gudmundsson, the Group's Chief Executive Officer and Director of the Company, was retiring from the business. The Group Nomination Committee undertook a robust recruitment and selection process, which led to the appointment of Mike Edwards as the Group's Chief Executive Officer, effective 1 November 2023. (Mike Edwards has been on the Management Board as Chief Operating Officer since 2014 and has served as an Executive Director on the Group Board since December 2020).

The Group Nomination Committee's succession planning review during the year ensures a diverse pipeline for succession, considering the skills and expertise required by the business and included contingency arrangements relating to sudden and unforeseen exits, to ensure orderly replacement, and medium- to long-term planning for identifying potential candidates within the Group. The result of this work highlighted that the Company has robust plans for our key roles across the business, supported by our Senior Executive Development Programme.

For further information, please see the 'Report of the Group Nomination Committee' on pages 113 to 118 of the Group's Annual Report.

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Strategic Report for the Period from 26 December 2021 to 31 December 2022
(continued)

Principle 3 - Responsibilities

"Directors should have a clear understanding of their accountability and responsibilities. The Company's policies and procedures should support effective decision-making and independent challenge."

Accountability

The Directors of the Company, supported by the Management Board, have a clear understanding of accountability and responsibilities, however, ultimate accountability is at the Group Board level.

The Management Board's responsibilities are documented in the Group's Schedule of Matters Reserved for the Board and Delegation of Authority which is available publicly on the Company's website: www.bakkavor.com.

For further information on the role and responsibilities of the Management Board and the Group Board, please see pages 98 to 108 of the Group's Annual Report.

Conflicts of interest

The Directors of the Company 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 under the Group's Conflicts of Interest Policy. They are required to disclose both the nature and extent of any potential or actual conflicts of interests of the Company.

In accordance with the Companies Act 2006, the Company's Articles of Association allow the Directors to authorise potential conflicts that may arise and to impose such conditions or limitations as it sees fit. This is delegated by the Directors of the Company to the Group Board to ensure independent oversight.

Integrity of Information

The provision of clear, precise and relevant management information and reports to the Directors of the Company and the Management Board is fundamental to achieving good governance and efficient decision-making and operations. Such information includes financial information, review of actual performance against plan, strategy updates and market developments. Reports are also provided on matters such as investment performance and risk.

There are formal and robust internal processes to ensure that the systems and controls in place are operating effectively, and that the statutory Directors of the Company and the Management Board receive accurate, regular and timely information about the performance of the business.

Oversight and review of the corporate governance framework is delegated to the Group General Counsel and Company Secretary who supports the Directors of the Company, the Group Board and the Management Board, ensuring good information flows and advising on all corporate governance matters.

Principle 4 - Opportunity and Risk

"The Board should promote the long-term sustainable success of the Company by identifying opportunities to create and preserve value, and establish oversight for the identification and mitigation of risks."

Opportunity

The Directors of the Company, supported by the Management Board are responsible for executing the Company's strategy, which includes identifying future opportunities for innovation and consideration of the Company's agreed risk appetite and the long-term strategy and prospects.

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Strategic Report for the Period from 26 December 2021 to 31 December 2022
(continued)

The Company's strategic positioning:

- Focus on developing fresh prepared food in UK grocery retail market
- Utilise scale and market-leading position across product categories
- Leverage long-standing partnerships with the Company's strategic customers
- Strong insight, innovation and new product development capabilities

Risk

The Company's principal risks and uncertainties are set out on page 18 of the Company's Strategic Report for the Period to 31 December 2022.

Risk Management and Internal Control

The Company's risk management process is aligned to that of the Group and the Group Board has overall responsibility for the Group's system of internal control and risk management.

The Directors of the Company, with the support of the Management Board, ensure 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. This is achieved through the Group's risk management process and framework. Senior executives and other management maintain the Group Risk Register by assigning individual principal risks to relevant parties, managing and monitoring owned risks through timely review and escalating additional risks and the evolutions in existing or emerging risks to their respective committee for review. The internal audit team carry out risk-based audits to provide assurance direct to the Audit and Risk Committee of the Group Board.

Group risks and emerging risks are reviewed quarterly by four regional/functional risk committees who report to the Management Board summarising changes in risks and mitigating actions. These are considered by the Management Board and then reported to the Audit and Risk Committee and Group Board.

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.

Principle 5 - Remuneration

"The board should promote executive remuneration structures aligned to the long-term sustainable success of the Company, taking into account pay and conditions elsewhere in the Company."

The remuneration structure of the Director of the Company is aligned to the Group Directors' Remuneration Policy ("the Policy").

Responsibility for executive remuneration has been delegated by the Directors of the Company to the Group Remuneration Committee to ensure independent oversight is maintained.

The Policy was put to a binding shareholder vote at the Group's 20 May 2021 Annual General Meeting ("AGM") and is effective for three years from approval.

Bakkavor Foods Limited
Strategic Report for the Period from 26 December 2021 to 31 December 2022
(continued)

The Group 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; and
- Take due account of good governance and promote the long-term success of the Group.

In seeking to achieve the above objectives, the Group Remuneration Committee was mindful of the views of a broad range of stakeholders in the business and accordingly took account of a number of factors when setting remuneration. This included 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.

During the year, Agust Gudmundsson (who resigned as Director on 1 November 2022), Ben Waldron and Mike Edwards the Directors of the Company received the following remuneration:

2022 Annual base salary

Base salary is designed to provide an appropriate level of fixed income to avoid over reliance on variable pay elements that could encourage excessive risk taking.

- Agust Gudmundsson: £659,000 (Agust's Gudmundsson's FY22 remuneration is for his 10 months in his role as Group Chief Executive Officer and Director of the Company)
- Mike Edwards: £529,000 (Mike Edwards' FY22 remuneration includes 10 months in his role as Chief Operating Officer, UK and two months as Chief Executive Officer)
- Ben Waldron: £410,000

Variable Pay

Benefits in kind offered to Executive Directors are provided to assist with retention and recruitment.

The annual bonus scheme rewards 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 Group Remuneration Committee and 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 Agust Gudmundsson) for three years under the Deferred Annual Bonus Plan.

Agust Gudmundsson was awarded an annual bonus in the sum of £132,000 in 2022. Agust Gudmundsson does not participate in the LTIP scheme. Agust's Gudmundsson's FY22 remuneration is for his 10 months in his role as Group Chief Executive Officer and Director of the Company.

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Strategic Report for the Period from 26 December 2021 to 31 December 2022
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Short-Term Incentive Plan (“STIP”) or Annual Bonus Plan

Mike Edwards was awarded an annual bonus in the sum of £165,000.

Ben Waldron was awarded an annual bonus in the sum of £128,000.

Mike Edwards and Ben Waldron were granted performance share and restricted share awards under the LTIP in October 2020, prior to their joining the Group Board. These awards were delayed from the usual April grant date as the Board and the Remuneration Committee prioritised their efforts on dealing with the emergence of the pandemic. The performance share awards are subject to a relative total shareholder return (“TSR”) condition which will be measured to October 2023. As the vesting outcome is unknown at this time, we will report it in the 2023 remuneration report, together with the outcome of the performance share awards granted in April 2021. The restricted share awards are due to vest in October 2023 subject to continued service only.

2022 Pension Entitlement

- Agust Gudmundsson: £20,000
- Ben Waldron: £12,000
- Mike Edwards: £76,000

The Group aims to provide a contribution towards life in retirement. Reflecting investors' views in this area, Agust Gudmundsson's pension contribution from 1 February 2021 and Ben Waldron's pension contribution rates are workforce aligned (3% of salary).

Mike Edwards' pension contribution rate continued at the level in place prior to his joining the Group Board - 20% of salary - but was reduced to the workforce rate (currently, 3% of salary) from 1 November 2022 when he became Group Chief Executive Officer.

Any future Executive Director appointments will receive pension contributions aligned with the workforce contribution rate in place at the time.

Total remuneration

The total remuneration of the individual Directors who served during the financial year is shown below.

	Base salary £ 000	Benefits £ 000	Pension £ 000	Total fixed remuneration £ 000	Bonus £ 000	Total variable remuneration £ 000	Total remuneration £ 000
M Edwards	529	26	76	631	165	165	796
B Waldron	410	23	12	445	128	128	573
A Gudmundsson	659	26	20	705	132	132	837
	<u>1,598</u>	<u>75</u>	<u>108</u>	<u>1,781</u>	<u>425</u>	<u>425</u>	<u>2,206</u>

Bakkavor Foods Limited
Strategic Report for the Period from 26 December 2021 to 31 December 2022
(continued)

Principle 6 - Stakeholder. relationships and Engagement

"Directors should foster effective stakeholder relationships aligned to the Company's purpose."

The Company's stakeholder relationships and engagement are aligned to that of the Group to ensure that the Company fulfils its obligations to those impacted by the business. Considering the impact of the Company's decisions on its stakeholders is fundamental to the Company's ability to deliver value creation and create a long-term sustainable business.

The Company's key stakeholders are its colleagues, customers, suppliers and communities.

Customers:

We have strategic relationships across our grocery retail, online, direct-to-consumer, brand and foodservice customers. Ensuring customers are central to decision-making is critical in delivering on the Company's strategy.

How we are responding:

- Developed new products to respond to changing consumer behaviours. This focused on value optimisation in the UK due to cost-of-living pressures.
- Maintained high service levels, despite ongoing supply chain disruption and labour pressures, leveraging our scale and expertise.
- Maintained status as a high-quality manufacturer, underpinned by strong food safety and health and safety metrics.
- Supported customers through our Trusted Partner efforts, and delivered progress on key sustainability commitments.
- Ensured customer-dedicated teams continued to support and proactively manage relationships.
- Ensured pass-through mechanisms continued to work effectively and secured price increases across our cost base to help mitigate inflation impact.
- Consolidated UK commercial and development structures to improve operational efficiency, keep our customer-centric approach and increase category focus.

Suppliers:

The Company has well-established supplier partnerships across a global network of over 1,300 suppliers with whom we collaborate closely on supply chain management as well as responsible sourcing. We source a breadth of high-quality raw materials that meet our standards of food safety and technical integrity and support innovation, maintain the continuity of supply of raw materials and to help manage labour availability and ensure the integrity of our supply chains and our responsibilities as a manufacturing partner.

Engagement with the Company's suppliers is proactively managed by the Management Board which provides feedback and regular updates to the Directors of the Company and the Group Board.

How we are responding:

- Leveraged scale, experience and strong customer partnerships to enhance buying power and mitigate the impact of industry challenges.
- Forward-purchasing of certain raw materials and energy provided good visibility of costs through 2022.
- Reviewed sourcing plans to build further resilience in our inbound supply chain.
- Continued to develop our approach to Brexit-related changes, including contingency plans particularly in relation to disruption at ports and trade with Northern Ireland.

Bakkavor Foods Limited

Strategic Report for the Period from 26 December 2021 to 31 December 2022

(continued)

- Worked closely with suppliers to ensure early identification of potential issues and action to minimise disruption.
- Worked closely with customers on supply performance, collaborative buying and cost models. Increased supplier payment facility to provide further opportunity for suppliers to receive payment early.

Colleagues

The Company has over 15,500 colleagues located across 28 sites in the UK. Colleagues are the heart of the business and incorporating their views into the Company's decision making is essential as it further defines culture and delivers against strategy.

The Directors of the Company, supported by the Management Board, place considerable value on the involvement of colleagues and continues to keep them informed on matters affecting them 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 Senior Executives and Management Board.

Feedback, suggestions, and concerns from colleagues across the business are communicated to members of the Management Board through Site and Group Employee Forums and via the Speak Up line. The Management Board receives regular updates on the topics discussed and provides regular updates on colleague engagement to the Group Board. Through these channels the Directors of the Company have oversight of the concerns and suggestions of the colleagues which in turn, shapes the decision-making process for the Company.

The Group's designated workforce engagement Non-executive Director provides colleagues with a direct channel of communication to an independent champion at Group Board level and holds sessions with Bakkavor's Site Employee Forums and Group Employee Forum and relays colleague feedback, views and outcomes from the sessions to the Group Board.

How we are responding:

- Embedding our refreshed values. Included Values Celebration Week and integrated values into colleague objectives and appraisals.
- Enhanced training and development: launched two cohorts on Female Mentoring Programme, implemented a central hub of learning content, and over 670 colleagues completed Front-Line Leaders Development Programme.
- Recognised and celebrated colleagues through our Proud to Be Awards.
- EES response rate up 3% to 86% in 2022 (2021: 83%). Identified opportunities and focus areas for improvement.
- Updated commitment to conduct Group-wide EES on an annual basis (previously 18 months).
- Implemented pay reviews and wider engagement activities to support retention and recruitment of talent.
- Launched new Wellbeing Strategy, appointed Wellbeing Champions, and ran campaigns to promote inclusive behaviours and allyship.
- Sought to further standardise food safety, and health and safety best practices and risk assessments across the business.

Employment of disabled persons

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 to accommodate them. 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.

Bakkavor Foods Limited

Strategic Report for the Period from 26 December 2021 to 31 December 2022 (continued)

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 colleagues 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.

Communities

We recognise we need to be a trusted partner to our local communities. At Group level, 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.

The Directors of the Company, supported by the Management Board, continue to focus on reducing the Company's environmental footprint and taking measures to tackle food waste, increasing resource efficiency, reducing emissions, and addressing the impact of packaging. 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 the Group's climate transition plan and reviews and considers community initiatives, how we are delivering on these and their progress, including our charity partnerships.

How we are responding:

- Support local communities across charities, schools, sports teams and projects through fundraising, donations, volunteering and educational activities.
- Established Group charity partnerships and fundraised for these with a charity events programme.
- Undertook food redistribution, via partners and colleague outreach with charities.
- In 2022, food waste reduced by 110 basis points to 8.05% and Group net carbon emissions reduced by 18.9%.
- Provide employment opportunities, including apprenticeships and graduate placements, via use of agencies.

Engagement with other stakeholders

Details surrounding the Company's stakeholder engagement can be found within the "Section 172 statement in the Strategic Report" section, on pages 66 to 71, of the Group's Annual Report.

Bakkavor Group 2022 Intercompany Dividend Sweep ("the Dividend Sweep")

The Company has implemented two Dividend Sweeps, the 2022 Dividend Sweep on 19 December 2022, and the H1 2023 Dividend Sweep on 25 May 2023 after the Balance Sheet date. Both Dividend Sweeps were implemented to fund any external dividends paid by Bakkavor Group plc to its Shareholders from Bakkavor Foods Limited's retained earnings.

The Dividend Sweeps involved the flow of dividends upwards through the Bakkavor Group plc structure from the Company, through Bakkavor Limited, Bakkavor Finance (2) Limited and Bakkavor Holdings Limited, to be received by Bakkavor Group plc.

2022 Dividend Sweep: The Directors of the Company resolved that a Dividend of £48,830,000 be paid by the Company to Bakkavor Limited.

H1 2023 Dividend Sweep: The Directors of the Company resolved that a Dividend of £29,500,000 be paid by the Company to Bakkavor Limited.

In reaching their decision, the Directors considered the right to promote the success of the Company for the benefit of its members as a whole and, in doing so, had regard to the specific requirements of Section 172 of the Act.

Bakkavor Foods Limited
Strategic Report for the Period from 26 December 2021 to 31 December 2022
(continued)

Fair review of the business and key performance indicators

The Company's turnover increased by £190,743,000 (12.0%) to £1,783,168,000 in 2022 (2021: £1,592,425,000). This growth was primarily driven by price and, while volumes were broadly flat, we gained market share in a period when consumer demand has been under pressure.

Gross Profit increased by £11,832,000 (2.5%) to £479,784,000 in 2022 (2021: £467,952,000) and Gross Margin decreased 250 basis points to 26.9% (2021: 29.4%). Whilst this has been a challenging period due to significant inflationary pressure across the cost base, we have been able to largely mitigate the impact through price recovery (both through pass-through mechanisms and traditional negotiations), operational efficiency improvements and tight cost control. Further, our approach to forward-purchasing of certain raw materials and energy has provided us with good visibility of costs through the year.

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.

Adjusted operating profit was £83,297,000 (2021: £90,944,000) a decrease of £7,647,000 or 8.4% compared to the prior period. See Note 30 for further information.

In 2022, the Company incurred an exceptional charge of £36,403,000 (2021: £Nil). Of this, £17,039,000 relates to restructuring costs for the closure of two of our UK sites (by the end of Q1 2023), and the costs of a corporate restructuring, which includes redundancy payments. The majority of the cash impact will be incurred in 2023. There is also a non-cash impairment charge of £19,364,000 in respect of the relevant fixed assets at the two sites due to close.

At 31 December 2022, the net assets on the Balance Sheet amounted to £774,420,000 (2021: £811,179,000), a year-on-year decrease of £36,759,000. In 2022, a dividend of £48,830,000 was paid, which comprised the 2021 final dividend and the 2022 interim dividend (2021: £100,000,000). The Directors recommend the payment of a final dividend in relation to 2022 totalling £29,500,000 which was paid on 26 May 2023, post year end.

The Directors consider the factors discussed in the fair review of the business to be the Company's key performance indicators. The key performance indicators of the Group are available on pages 4 to 5 of the Bakkavor Group plc Annual Report & Accounts 2022.

Principal risks and uncertainties

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

- Consumer behaviour and demand
- Competitors
- Strategic growth and change programmes
- Reliance on a small number of key customers
- Food safety and integrity
- Health and safety

Bakkavor Foods Limited
Strategic Report for the Period from 26 December 2021 to 31 December 2022
(continued)

- Supply chain
- Availability, recruitment and retention of colleagues
- Brexit disruption
- Covid pandemic
- IT systems and cyber risk
- Climate change and sustainability
- Disruption to Company operations
- Treasury
- Pensions
- Legal and regulatory

Further information on each of these risks is detailed in the Bakkavor Group plc Annual Report & Accounts 2022, Risk Management and Risks section, on pages 76 to 86.

Financial risk management

Foreign currency risk

The Company's foreign currency risk arises on cash balances and trade and other payables in Euros and US Dollars. The Bakkavor Group actively manages the Group's currency risk, operating within the strict framework of Group Board approved policies and procedures.

Foreign currency risk management occurs at a transactional level on purchases in foreign currencies. 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 Company's hedged cover.

The Company's main foreign exchange risk is to the Euro and US dollar.

Credit risk

Credit risk refers to the risk of financial loss to the Company if a counterparty defaults on its contractual obligations of the financial assets measured at amortised cost held in the Balance Sheet.

The Company's main credit risk is attributable to its trade and other receivables. A provision for expected credit loss 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 87.8% (2021: 87.0%) 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. The Group manages liquidity risk, on behalf of the Company, 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 significant headroom of unused committed bank facilities, with maturities that are at least 12 months beyond the period end.

Bakkavor Foods Limited
Strategic Report for the Period from 26 December 2021 to 31 December 2022
(continued)

Investment risk

The performance of the operating subsidiaries within the Company's investments is subject to distinct operational and market risks which may impact the investment value.

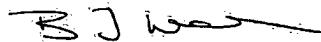
Research and development

Developing innovative new products remains core to our business. The Company 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 desire. Teams of chefs and product development experts continuously create and test recipes, and work collaboratively with the Company's commercial and marketing teams to ensure products taste great, are commercially viable and reinforce the Company's market-leading position.

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 food market. As a result the Directors are satisfied with the Company's results and achievements and believe that the future prospects of the Company are sound.

Approved by the Board on 6 September 2023 and signed on its behalf by:



B Waldron
Director

Bakkavor Foods Limited

Independent auditors' report to the members of Bakkavor Foods Limited

Report on the audit of the financial statements

Opinion

In our opinion, Bakkavor Foods Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2022 and of its profit for the 53 week period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Balance Sheet as at 31 December 2022; the Profit and Loss Account, the Statement of Comprehensive Income and the 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.

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 company 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 other entities of public interest, 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 Annual Report and Financial Statements of Bakkavor Group plc, we have provided no non-audit services to the company or its controlled undertakings in the period under audit.

Conclusions relating to going concern

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 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 company's ability to continue as a going concern.

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. Our opinion on the financial statements does not cover the

Bakkavor Foods Limited

Independent auditors' report to the members of Bakkavor Foods Limited (continued)

Reporting on other information (continued)

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 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 31 December 2022 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 company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement, 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 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 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 company and industry, we identified that the principal risks of non-compliance with laws and regulations related to 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

Bakkavor Foods Limited

Independent auditors' report to the members of Bakkavor Foods Limited (continued)

Auditors' responsibilities for the audit of the financial statements (continued)

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 managements' 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, the presentation and disclosure of exceptional items and the recoverability assessment for goodwill; and
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations which impact revenue or EBITDA, 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.

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 financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Sandeep Dhillon (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
6 September 2023

Bakkavor Foods Limited**Profit and Loss Account for the Period from 26 December 2021 to 31 December 2022**

	Note	2022 £ 000	2021 £ 000
Turnover	4	1,783,168	1,592,425
Cost of sales		<u>(1,303,384)</u>	<u>(1,124,473)</u>
Gross profit		479,784	467,952
Distribution costs		(79,782)	(67,314)
Administrative expenses	6	(318,198)	(309,694)
Exceptional items	5	<u>(36,403)</u>	<u>-</u>
Total administrative costs		<u>(354,601)</u>	<u>(309,694)</u>
Operating profit	6	45,401	90,944
Other interest receivable and similar income	7	6,413	4,245
Interest payable and similar expenses	8	(13,085)	(8,080)
Other gains and (losses)	9	<u>1,184</u>	<u>(3,243)</u>
Profit before tax		39,913	83,866
Tax charge on profit	13	<u>(12,084)</u>	<u>(22,931)</u>
Profit for the period		<u>27,829</u>	<u>60,935</u>

The above results were derived from continuing operations.

Bakkavor Foods Limited**Statement of Comprehensive Income for the Period from 26 December 2021 to 31 December 2022**

	Note	2022 £ 000	2021 £ 000
Profit for the period		<u>27,829</u>	<u>60,935</u>
Items that will not be reclassified subsequently to profit or loss			
Actuarial (loss)/gain on defined benefit pension schemes before tax	27	(26,300)	24,500
Income tax effect	13	<u>6,575</u>	<u>(6,652)</u>
		<u>(19,725)</u>	<u>17,848</u>
Items that may be reclassified subsequently to profit or loss			
Gain/(loss) on cash flow hedges	19	4,946	(1,032)
Tax relating to components of other comprehensive income/(expense)	13	<u>(979)</u>	<u>-</u>
		<u>3,967</u>	<u>(1,032)</u>
Total other comprehensive (expense)/income		<u>(15,758)</u>	<u>16,816</u>
Total comprehensive income for the period		<u><u>12,071</u></u>	<u><u>77,751</u></u>

The Notes on pages 28 to 58 form an integral part of these Financial Statements.
Page 25.

Bakkavor Foods Limited
Statement of Changes in Equity for the Period from 26 December 2021 to 31 December 2022

	Notes	Called up share capital £ 000	Share premium account £ 000	Cash flow hedging reserve £ 000	Profit and Loss Account £ 000	Total Shareholders' funds £ 000
At 27 December 2020		39,906	165,094	-	628,428	833,428
Profit for the period		-	-	-	60,935	60,935
Other comprehensive (expense)/income		-	-	(1,032)	17,848	16,816
Total comprehensive (expense)/income		-	-	(1,032)	78,783	77,751
Dividends	26	-	-	-	(100,000)	(100,000)
At 25 December 2021	25, 26	<u>39,906</u>	<u>165,094</u>	<u>(1,032)</u>	<u>607,211</u>	<u>811,179</u>

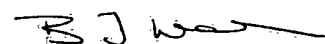
	Notes	Called up share capital £ 000	Share premium account £ 000	Cash flow hedging reserve £ 000	Profit and Loss Account £ 000	Total Shareholders' funds £ 000
At 26 December 2021		39,906	165,094	(1,032)	607,211	811,179
Profit for the period		-	-	-	27,829	27,829
Other comprehensive income/(expense)		-	-	3,967	(19,725)	(15,758)
Total comprehensive income		-	-	3,967	8,104	12,071
Dividends	26	-	-	-	(48,830)	(48,830)
At 31 December 2022	25, 26	<u>39,906</u>	<u>165,094</u>	<u>2,935</u>	<u>566,485</u>	<u>774,420</u>

The Notes on pages 28 to 58 form an integral part of these Financial Statements.

Bakkavor Foods Limited
(Registration number: 01060806)
Balance Sheet as at 31 December 2022

		31 December 2022 £ 000	Restated 25 December 2021 £ 000
	Note		
Fixed assets			
Goodwill and other intangible assets	14	247,640	240,306
Property, plant and equipment	15	364,963	401,824
Investments in subsidiaries	16	8,614	8,614
		<u>621,217</u>	<u>650,744</u>
Current assets			
Stocks	17	66,443	56,733
Debtors	18	756,971	710,414
Retirement benefit asset	27	12,751	37,151
Derivative financial instruments	19	4,148	209
Cash at bank and in hand		17,544	10,864
Corporate tax asset		1,121	-
		<u>858,978</u>	<u>815,371</u>
Total assets		<u>1,480,195</u>	<u>1,466,115</u>
Creditors: Amounts falling due within one year	20	<u>(550,145)</u>	<u>(499,131)</u>
Net current assets		<u>308,833</u>	<u>316,240</u>
Total assets less current liabilities		930,050	966,984
Creditors: Amounts falling due after more than one year	23	(88,188)	(99,248)
Provisions	24	(36,188)	(21,341)
Deferred tax liabilities	13	<u>(31,254)</u>	<u>(35,216)</u>
Net assets		<u>774,420</u>	<u>811,179</u>
Capital and reserves			
Called up share capital	25	39,906	39,906
Share premium account	26	165,094	165,094
Cash flow hedging reserve	26	2,935	(1,032)
Profit and Loss Account	26	<u>566,485</u>	<u>607,211</u>
Total Shareholders' funds		<u>774,420</u>	<u>811,179</u>

The Financial Statements were approved by the Board on 6 September 2023 and signed on its behalf by:



B Waldron
Director

Bakkavor Foods Limited

Notes to the Financial Statements for the Period from 26 December 2021 to 31 December 2022

1 General information

The Company is a private company limited by share capital, incorporated and domiciled in the United Kingdom 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.

New standards, interpretations and amendments effective

At the date of authorisation of these Financial Statements, the following Standards and Interpretations relevant to the Company have not been applied in these Financial Statements as they were in issue but not yet effective:

- IFRS 17 Insurance Contracts
- 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
- Amendments to IAS 12, 'Taxation', relating to Deferred tax related to assets and liabilities arising from a single transaction
- Amendments to IAS 8, Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates
- Amendments to IAS 1, Presentation of financial statements' on classification of liabilities
- Amendments to IAS 1, Presentation of financial statements' on non-current liabilities with covenants
- Amendments to IFRS 16, 'Leases' Lease Liability in a Sale and Leaseback

The Directors anticipate that the adoption of these Standards and Interpretations will have no material impact on the Financial Statements of the Company.

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.

Bakkavor Foods Limited

Notes to the Financial Statements for the Period from 26 December 2021 to 31 December 2022 (continued)

2 Accounting policies (continued)

Basis of preparation

These Financial Statements of the Company have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101) and the Companies Act as applicable to companies using FRS 101. 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 of or immediately before 31 December, as this is not more than 7 days before the end of the period dated 31 December. Where the fiscal year 2022 is quoted in these Financial Statements this relates to the 53 week period ended 31 December 2022. The fiscal year 2021 relates to the 52 week period ended 25 December 2021.

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

In these Financial Statements, the Company has taken advantage of the disclosure exemptions available under FRS 101 in relation to share-based payment, business combinations, non-current assets held for sale, financial instruments, fair value measurements, capital management, revenue from contracts with customers, presentation of comparative period reconciliations for share capital, tangible fixed assets, intangible assets and investment property, presentation of a cash-flow statement, the effects of new standards not yet effective, impairment of assets and disclosures in respect of the compensation of key management personnel and of transactions with a management entity that provides key management personnel services to the Company.

Restatements

During the year the Company identified that its Property, plant and equipment cost and accumulated depreciation were both understated by £122,588,000, with no impact to the net book value. This mainly related to cost and accumulated depreciation values of assets disposed of in prior years for businesses which had been historically acquired. In addition some assets had historically been incorrectly categorised as Plant and machinery instead of Land and buildings due to complexity of projects. There is no impact to the Profit and Loss Account or the Balance Sheet as a result of these restatements. The impact of the restatements impact to Property, plant and equipment can be seen in Note 15.

The Balance Sheet for the period ending 25 December 2021 has been restated to reflect the requirements of the Companies Act 2006 format. The retirement benefit asset, £37,151,000, and the derivative financial instruments, £26,000, have been restated from fixed assets to current assets.

Going concern

The Directors have reviewed the historical trading performance of the Company and the forecasts through to September 2024. The going concern basis has been adopted in preparing these Financial Statements. Reference should be made to the Director's Report for the Director's consideration of going concern.

Exemption from preparing Group Financial Statements

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.

Bakkavor Foods Limited

Notes to the Financial Statements for the Period from 26 December 2021 to 31 December 2022 (continued)

2 Accounting policies (continued)

Revenue recognition

The Company 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.

Upon completion of delivery (the performance obligation), the terms of the order allow 30 to 75 days for payment, dependent on the customer contract. The Company has in place trade receivable factoring arrangements.

Many of the Company'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 Company 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 Company'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 Company has satisfied its performance obligations, the customer will make payment in line with agreed payment terms. The Company 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 Company does not adjust any of the transaction price for the time value of money. For goods returned, the Company will recognise an obligation and reduce revenue accordingly at the time of notification.

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.

Interest receivable

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.

Interest payable

Interest payable is recognised on an effective interest basis for debt instruments other than those financial liabilities designated as at fair value through profit and loss ('FVPL'). The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating finance costs over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments over the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Bakkavor Foods Limited

Notes to the Financial Statements for the Period from 26 December 2021 to 31 December 2022 (continued)

2 Accounting policies (continued)

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 material items that are significant in nature, non-recurring and are important to users in understanding the business, including restructuring costs, disruption costs, pre-commissioning costs for new manufacturing facilities, impairment of assets, disposals of subsidiaries and associates, one-off finance costs relating to redemptions and other refinancing activities and fair value adjustments.

Tax

The tax expense for the period comprises current tax and deferred tax. The tax expense is recognised in the Profit and Loss Account, 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.

Current tax payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the Profit and Loss Account 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 Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the Balance Sheet date.

Deferred 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 tax is determined using tax rates and laws that have been enacted or substantively enacted by the Balance Sheet date.

The carrying amount of deferred tax assets are reviewed at each Balance Sheet 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.

Payments for intragroup transfer of tax losses

Where the Company surrenders tax losses to or receives tax losses from another Group company, an amount of compensation is received from or paid to that respective Group company ('group relief payments'). Group policy is to ensure that the surrendering company is reimbursed for tax losses at the prevailing UK corporate tax rate.

Property, plant and equipment

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

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

Bakkavor Foods Limited

Notes to the Financial Statements for the Period from 26 December 2021 to 31 December 2022 (continued)

2 Accounting policies (continued)

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 period
Buildings	maximum period of 50 years
Plant and machinery	1 to 20 years
Fixtures and equipment	3 to 5 years

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.

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.

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.

The Company has 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 and customer relationships over their useful economic lives in paragraph 22 of Schedule 1 to the Regulations.

Other intangible assets

Intangible assets 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 Administrative costs in the Profit and Loss Account.

During the year, the Company revised its accounting policy in relation to upfront configuration and customisation costs incurred in implementing Software-as-a-Service ("SaaS") arrangements in response to the IFRIC agenda decision clarifying its interpretation of how current accounting standards apply to these types of arrangements. The impact of this revision was not material.

SaaS arrangements are service contracts providing the Company with the right to access the cloud provider's application software over the contract period.

Costs incurred to configure or customise, and the ongoing fees to obtain access to the cloud provider's application software, are recognised as operating expenses when the services are received, unless the configuration and customisation activities significantly modify or customise the cloud software, in which case the costs are expensed over the SaaS contract term.

Bakkavor Foods Limited

Notes to the Financial Statements for the Period from 26 December 2021 to 31 December 2022 (continued)

2 Accounting policies (continued)

When they meet the definition of and recognition criteria for an intangible asset, cost incurred relating to the development of software code that enhance or modify existing on-premise systems are recognised as intangible assets.

The amortisation charge for software, source code, licences and development is recognised as an expense over the term of the software contract up to a maximum of ten years, and is charged to Administrative expenses in the Profit and Loss Account.

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 Profit and Loss Account, 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'.

Investments in subsidiaries

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 a rate equal to the Company's weighted average cost of capital.

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.

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.

Financial assets

Classification

The Company 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 the Profit and Loss Account or in OCI.

Bakkavor Foods Limited

Notes to the Financial Statements for the Period from 26 December 2021 to 31 December 2022 (continued)

2 Accounting policies (continued)

Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at 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 the Profit and Loss Account.

Subsequent measurement depends on the cash flow characteristics of the asset. There are three measurement categories into which the Company 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 Profit and Loss Account.
- **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 Profit and Loss Account 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 Company classifies its trade receivable balances dependent on its objectives with respect to the collection of contractual cash flows. The Company 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 Profit and Loss Account, 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 Company 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 Company 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 31 December 2022 or 25 December 2021 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 Company, 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.

Bakkavor Foods Limited

Notes to the Financial Statements for the Period from 26 December 2021 to 31 December 2022 (continued)

2 Accounting policies (continued)

Financial liabilities

Financial liabilities held by the Company 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.

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 Company 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 Company's obligations are discharged, cancelled or expire.

Derivative financial instruments

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates. The Company uses foreign exchange forward contracts to manage these exposures. The Company does not use derivative financial instruments for speculative purposes. The use of financial derivatives is governed by the Company'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 the Profit and Loss Account immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the Profit and Loss Account 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 Company 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.

Bakkavor Foods Limited

Notes to the Financial Statements for the Period from 26 December 2021 to 31 December 2022 (continued)

2 Accounting policies (continued)

From 27 December 2020, the Company 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.

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 the Profit and Loss Account, 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 the Profit and Loss Account in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item.

The Company 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 the Profit and Loss Account 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 the Profit and Loss Account.

Stocks

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 the Profit and Loss Account.

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.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the Balance Sheet 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 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 Company.

Bakkavor Foods Limited

Notes to the Financial Statements for the Period from 26 December 2021 to 31 December 2022 (continued)

2 Accounting policies (continued)

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 Directors' 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

From the start of 2019 the Company has 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 Company 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 as follows:

- Recognise right-of-use assets and lease liabilities in the Balance Sheet, initially measured at the present value of future lease payments. Future lease payments are discounted at the Company'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 Company assumes that these will be exercised; and
- Recognise depreciation of right-of-use assets and interest on lease liabilities in the Profit and Loss Account.

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 Company 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 Profit and Loss Account.

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.

Defined contribution pension obligation

A defined contribution plan is a pension plan under which the Company 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 Company 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 Profit and Loss Account 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 Company's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme.

Bakkavor Foods Limited

Notes to the Financial Statements for the Period from 26 December 2021 to 31 December 2022 (continued)

2 Accounting policies (continued)

Defined benefit pension obligation

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 Balance Sheet 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 Profit and Loss Account 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 Company recognises restructuring-related costs or termination benefits.

The Company recognises the first two components of defined benefit costs in the Profit and Loss Account.

The retirement benefit recognised in the Balance Sheet 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.

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.

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

Presentation of exceptional items

The Company'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 5.

Bakkavor Foods Limited**Notes to the Financial Statements for the Period from 26 December 2021 to 31 December 2022 (continued)****3 Critical accounting judgements and key sources of estimation uncertainty (continued)****Key sources of estimation uncertainty****Pension obligations**

The Company maintains a defined benefit group 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, 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. Further detail is disclosed in Note 27.

Impairment of goodwill

The recoverable amount of CGUs or groups of CGUs are determined based on the higher of fair value less costs to sell and value-in-use calculations. The assumptions used to calculate the CGU recoverable amounts are considered to be key sources of estimation uncertainty. The key assumptions that can impact the value-in-use calculations are changes to the growth rates applied to derive a three-year forecast, or a movement in the long-term growth rates and discount rates applied to the future cash flows. The Company has considered the impact of the assumptions used in the CGU calculations and has conducted sensitivity analyses on the impairment tests of the CGU carrying value. See Note 13 of the Bakkavor Group Annual Report & Accounts on pages 189 - 190 for further details of the key assumptions used in the UK CGU, which have been applied to the Company.

4 Turnover

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

	2022 £ 000	2021 £ 000
Sale of goods to United Kingdom customers	1,783,057	1,592,109
Sale of goods to other Group companies	111	316
	<u>1,783,168</u>	<u>1,592,425</u>

Major customers

In 2022 the Company's four largest customers accounted for 87.8% (2021: 87.0%) of total turnover.

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

	2022 %	2021 %
Customer A	39.1	39.4
Customer B	24.6	23.8
Customer C	14.6	13.5
Customer D	9.5	10.3
	<u>87.8</u>	<u>87.0</u>

Bakkavor Foods Limited**Notes to the Financial Statements for the Period from 26 December 2021 to 31 December 2022 (continued)****5 Exceptional items**

	2022	2021
	£ 000	£ 000
UK site closures and corporate restructuring costs	17,039	-
UK site closures impairment charge	19,364	-
	<u>36,403</u>	<u>-</u>

In 2022, the Company incurred an exceptional charge of £36,403,000 (2021: £nil). Of this, £17,039,000 relates to restructuring costs for the closure of two of our UK sites by the end of Q1 2023, and the costs of a corporate restructuring, which includes redundancy payments, onerous and other closure costs. The majority of the cash impact will be recognised in 2023. There is also an impairment charge of £19,364,000 in respect of the relevant fixed assets at the two sites due to close and these charges have no cash impact.

No exceptional costs were incurred by the Company in 2021.

6 Operating profit

Arrived at after charging/(crediting)

	Notes	2022	2021
		£ 000	£ 000
Depreciation of owned assets	15	43,056	42,245
Depreciation of leased assets	15, 22	14,316	14,372
Amortisation expense		144	-
Cost of stock		835,355	695,973
Write down of stocks recognised as a expense/(credit)		1,242	(96)
Research and development		8,134	7,588
Exceptional items		36,403	-
Configuration and customisation costs for SaaS projects		1,493	-
Loss/(profit) on disposal of PPE		1,050	(1,589)
Staff costs	10	<u>495,414</u>	<u>469,449</u>

Administrative expenses (net) are comprised of:

	2022	2021
	£ 000	£ 000
Administrative expenses	318,198	316,881
Other operating charges	-	313
Total operating expenses	<u>318,198</u>	<u>317,194</u>
Other operating income	-	(7,500)
Other administrative expenses (net)	<u>318,198</u>	<u>309,694</u>

Bakkavor Foods Limited**Notes to the Financial Statements for the Period from 26 December 2021 to 31 December 2022 (continued)****6 Operating profit (continued)**

In 2021, other operating charges and income related to an insurance claim which resulted in a net profit of £7,187,000. This included proceeds that were used to replace damaged assets which resulted in a gain on disposal of fixed assets of £1,580,000. There are no other operating charges or income in 2022.

7 Other interest receivable and similar income

	2022	2021
	£ 000	£ 000
Interest income on bank deposits	25	-
Interest receivable from Group companies	6,388	4,245
	<u>6,413</u>	<u>4,245</u>

8 Interest payable and similar expenses

	2022	2021
	£ 000	£ 000
Customer financing interest	3,576	1,102
Interest on borrowings	906	850
Amortisation of refinancing costs	44	39
Interest on lease liabilities	2,760	2,532
Unwinding of discount on provisions	803	231
Interest paid to Group undertakings	4,996	3,326
	<u>13,085</u>	<u>8,080</u>

9 Other gains and (losses)

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

	2022	2021
	£ 000	£ 000
Change in the fair value of derivative financial instruments	(98)	(3,977)
Foreign currency gains	1,282	734
	<u>1,184</u>	<u>(3,243)</u>

10 Staff costs

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

		2022	2021
	Note	£ 000	£ 000
Wages and salaries		434,244	413,427
Social security costs		48,831	44,291
Other pension costs	27	12,339	11,731
		<u>495,414</u>	<u>469,449</u>

Bakkavor Foods Limited**Notes to the Financial Statements for the Period from 26 December 2021 to 31 December 2022 (continued)****10 Staff costs (continued)**

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

	2022 No.	2021 No.
Production	13,028	13,312
Management and administration	1,805	1,865
Sales and distribution	734	686
	<u>15,567</u>	<u>15,863</u>

11 Directors' remuneration

The Directors' remuneration for the period was as follows:

	2022 £ 000	2021 £ 000
Remuneration	<u>2,206</u>	<u>3,066</u>

The pension entitlements disclosed in the Strategic Report included cash contributions paid in lieu of pension contributions.

The highest paid director received aggregate remuneration (including pension contributions) of:

	2022 £ 000	2021 £ 000
Remuneration	<u>837</u>	<u>1,278</u>

12 Auditors' remuneration

	2022 £ 000	2021 £ 000
Audit of the Financial Statements	<u>500</u>	<u>500</u>

The Company facilitates payment of fees pertaining to audit services rendered to Bakkavor Group plc.

In addition to the entity audit fee of £500,000 (2021: £500,000), audit fees relating to Bakkavor Group plc and other Bakkavor Group companies of £600,000 (2021: £500,000) were incurred by the Company that were not recharged to other Group companies.

Disclosure of fees payable to the auditors and their associates for non-audit services has not been made in these Financial Statements, because the Consolidated Financial Statements of Bakkavor Group plc includes the disclosure of non-audit services on a consolidated basis.

Bakkavor Foods Limited**Notes to the Financial Statements for the Period from 26 December 2021 to 31 December 2022 (continued)****13 Tax on profit**

Tax charged/(credited) in the Profit and Loss Account

	2022 £ 000	2021 £ 000
Current taxation		
Corporation tax - Current year	8,880	8,188
Corporation tax - Prior year	5,305	1,834
Total current tax charge	<u>14,185</u>	<u>10,022</u>
Deferred taxation		
Deferred tax relating to the origination and reversal of temporary differences in the period	4,764	12,519
Deferred tax relating to change in tax rates	1,590	-
Deferred tax prior period adjustment	<u>(415)</u>	<u>390</u>
Total deferred tax charge	<u>5,939</u>	<u>12,909</u>
Tax on exceptional items		
Corporation tax on exceptional items	(3,360)	-
Deferred tax on exceptional items	<u>(4,680)</u>	<u>-</u>
Total tax credit on exceptional items	<u>(8,040)</u>	<u>-</u>
Tax charge in the Profit and Loss Account	<u><u>12,084</u></u>	<u><u>22,931</u></u>

Corporation tax is calculated at 19% (2021: 19%) of the estimated profit for the period. The tax for the period is reconciled to the Profit and Loss Account as follows:

	2022 £ 000	2021 £ 000
Profit before tax	<u>39,913</u>	<u>83,866</u>
Corporation tax charge at standard rate	7,583	15,935
Effect of income exempt from taxation	(1,781)	(1,787)
Effect of expenses not deductible in determining taxable profit	925	458
Deferred tax change in rate	467	6,101
Current tax prior year adjustment	5,305	1,834
Deferred tax prior year adjustment	<u>(415)</u>	<u>390</u>
Total tax charge	<u><u>12,084</u></u>	<u><u>22,931</u></u>

The Government announced on 3 March 2021, and substantively enacted on 24 May 2021, that the UK corporation tax rate will increase to 25% effective from 1 April 2023.

Bakkavor Foods Limited
Notes to the Financial Statements for the Period from 26 December 2021 to 31 December 2022 (continued)
13 Tax on profit (continued)
Deferred tax

Deferred tax movement during the prior period:

	At 27 December 2020 £ 000	Recognised in income £ 000	Transfer to Group companies £ 000	Recognised in OCI* £ 000	At 25 December 2021 £ 000
Accelerated tax depreciation	(13,407)	(13,098)	-	-	(26,505)
Fair value movements on financial instruments	53	149	-	-	202
Other items	257	118	-	-	375
Pension benefit obligations	(2,128)	(508)	-	(6,652)	(9,288)
Share-based payment	-	430	(430)	-	-
Net tax liabilities	<u>(15,225)</u>	<u>(12,909)</u>	<u>(430)</u>	<u>(6,652)</u>	<u>(35,216)</u>

Deferred tax movement during the period:

	At 26 December 2021 £ 000	Recognised in income £ 000	Transfer to Group companies £ 000	Recognised in OCI* £ 000	At 31 December 2022 £ 000
Accelerated tax depreciation	(26,505)	(1,749)	-	-	(28,254)
Fair value movements on financial instruments	202	(202)	-	(979)	(979)
Other items	375	257	-	-	632
Pension benefit obligations	(9,288)	60	-	6,575	(2,653)
Share-based payment	-	375	(375)	-	-
Net tax (liabilities)/assets	<u>(35,216)</u>	<u>(1,259)</u>	<u>(375)</u>	<u>5,596</u>	<u>(31,254)</u>

*Other Comprehensive Income referred to above as 'OCI'.

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

Other factors affecting future tax charges

The Organisation for Economic Cooperation & Development ("OECD") has published proposals for a global corporate minimum tax rate of 15%. The UK implementation of these rules ("Pillar Two") will be effective for accounting periods commencing on or after 31 December 2023 and will therefore impact the Company in the accounting period ending December 2024. Given the rates at which the Company pays corporation tax, it is unlikely that the implementation of the Pillar Two rules will impact the Company's tax charge in future periods. The rules are complex and the Company will continue to evaluate the impact of Pillar Two on the tax charge as the implementation date approaches.

Bakkavor Foods Limited
Notes to the Financial Statements for the Period from 26 December 2021 to 31 December 2022 (continued)
14 Goodwill and other intangible assets

	Note	Goodwill £ 000	Customer relationships £ 000	Software £ 000	Total £ 000
Cost or valuation					
At 26 December 2021		280,244	42,087	-	322,331
Reclassified from Property, plant and equipment	15	-	-	12,700	12,700
Additions		-	-	2,872	2,872
At 31 December 2022		<u>280,244</u>	<u>42,087</u>	<u>15,572</u>	<u>337,903</u>
Accumulated amortisation					
At 26 December 2021		39,938	42,087	-	82,025
Reclassified from Property, plant and equipment	15	-	-	8,094	8,094
Amortisation charge		-	-	144	144
At 31 December 2022		<u>39,938</u>	<u>42,087</u>	<u>8,238</u>	<u>90,263</u>
Carrying amount					
At 31 December 2022		<u>240,306</u>	<u>-</u>	<u>7,334</u>	<u>247,640</u>
At 25 December 2021		<u>240,306</u>	<u>-</u>	<u>-</u>	<u>240,306</u>

Bakkavor Foods Limited
Notes to the Financial Statements for the Period from 26 December 2021 to 31 December 2022 (continued)
15 Property, plant and equipment

	Note	Land and buildings £ 000	Plant and machinery £ 000	Fixtures and equipment £ 000	Total £ 000
Cost					
At 26 December 2021 as previously reported		257,805	638,766	112,142	1,008,713
Restatement	2	(52,234)	(59,817)	(10,537)	(122,588)
At 26 December 2021 restated		205,571	578,949	101,605	886,125
Reclassified to Intangible assets	14	(3)	(779)	(11,918)	(12,700)
Additions		5,792	23,781	16,410	45,983
Disposals		(1,139)	(966)	(13,449)	(15,554)
At 31 December 2022		<u>210,221</u>	<u>600,985</u>	<u>92,648</u>	<u>903,854</u>
Accumulated depreciation and impairment					
At 26 December 2021 as previously reported		112,759	423,899	70,231	606,889
Restatement	2	(50,251)	(61,878)	(10,459)	(122,588)
At 26 December 2021 restated		62,508	362,021	59,772	484,301
Reclassified to Intangible assets	14	(3)	(444)	(7,647)	(8,094)
Charge for the period		17,725	28,716	10,931	57,372
Eliminated on disposal		(89)	(966)	(12,996)	(14,051)
Impairment		4,645	11,621	3,097	19,363
At 31 December 2022		<u>84,786</u>	<u>400,948</u>	<u>53,157</u>	<u>538,891</u>
Carrying amount					
At 31 December 2022		<u>125,435</u>	<u>200,037</u>	<u>39,491</u>	<u>364,963</u>
At 25 December 2021 restated	2	<u>143,063</u>	<u>216,928</u>	<u>41,833</u>	<u>401,824</u>

Restatement

Please refer to Note 2 for details of the restatement.

Reclassification

During the year, the Company completed a review of software assets included within Property, plant and equipment and determined that assets with a net book value of £4,606,000 should be reclassified to Other intangible assets.

Bakkavor Foods Limited**Notes to the Financial Statements for the Period from 26 December 2021 to 31 December 2022 (continued)****15 Property, plant and equipment (continued)****Impairment**

During 2022, the Company impaired £4,645,000 of land and buildings including right-of-use assets of £301,000, £11,621,000 of plant and machinery including right-of-use assets of £343,000 and £3,097,000 of fixtures and equipment. These impairment charges arose from sites which were closed by the end of March 2023. 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 the year of £19,363,000 were included within Exceptional items, see Note 5 for further information.

Amounts held under lease arrangements

The carrying value of the Company's plant and machinery does not include any amounts that are in respect of assets held under leases previously recognised as finance leases before the introduction of IFRS 16 (2021: £2,186,000).

The carrying value of the Company's land and buildings and plant and machinery includes an amount of £66,359,000 (2021: £75,322,000) in respect of assets held under IFRS 16 Leases.

Further details of these leases are disclosed in Note 22.

Amounts held as security

The carrying value of the Company's plant and machinery includes an amount of £26,395,000 (2021: £30,916,000) in respect of assets held as security under the Asset Finance Facility. Further details of this facility are disclosed in Note 21.

Contractual commitments for the acquisition of property, plant and equipment

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

	31 December 2022	25 December 2021
	£ 000	£ 000
Property, plant and equipment	<u>5,358</u>	<u>4,549</u>

16 Investments in subsidiaries

£ 000

Cost or valuation

At 27 December 2020, 25 December 2021 and 31 December 2022 34,149

Accumulated impairment

At 27 December 2020, 25 December 2021 and 31 December 2022 25,535

Carrying amount

At 31 December 2022 8,614

At 25 December 2021 8,614

All investments in subsidiaries are held through ownership of Ordinary shares.

Bakkavor Foods Limited**Notes to the Financial Statements for the Period from 26 December 2021 to 31 December 2022 (continued)****16 Investments in subsidiaries (continued)****Details of undertakings**

Details of the investments in which the Company held share capital as at 31 December 2022 were as follows:

Name of subsidiary	Principal activity	Registered office	Proportion of voting rights and shares held	
			2022	2021
Butterdean Products Limited*	Dormant non-trading company	Fitzroy Place, 5th Floor, 8 Mortimer Street, London, England, W1T 3JJ. United Kingdom	100%	100%
Bakkavor Central Finance Limited*	Dormant non-trading company	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%
Bakkavor Estates Limited *	Property management	West Marsh Road, Spalding, Lincolnshire, England, PE11 2BB. United Kingdom	100%	100%
BV Restaurant Group Limited*	Dormant non-trading company	Fitzroy Place, 5th Floor, 8 Mortimer Street, London, England, W1T 3JJ. United Kingdom	100%	100%
Bakkavor Dormant Holdings Limited*	Holding Company	Fitzroy Place 5th Floor, 8 Mortimer Street, London, W1T 3JJ. United Kingdom	100%	100%
Bakkavor Finance (1) Limited	Dormant non-trading company	Fitzroy Place, 5th Floor, 8 Mortimer Street, London, England, W1T 3JJ. United Kingdom	100%	100%
Bakkavor Finance (3) Limited	Dormant non-trading company	Fitzroy Place, 5th Floor, 8 Mortimer Street, London, England. W1T 3JJ. United Kingdom	100%	100%
BV Foodservice 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 26 December 2021 to 31 December 2022 (continued)****16 Investments in subsidiaries (continued)**

Name of subsidiary	Principal activity	Registered office	Proportion of voting rights and shares held	
			2022	2021
Bakkavor (Acquisitions) Limited	Dormant non-trading company	Fitzroy Place, 5th Floor, 8 Mortimer Street, London, England, W1T 3JJ. United Kingdom	100%	100%
Bakkavor Acquisitions (2008) Limited	Dormant non-trading company	Fitzroy Place, 5th Floor, 8 Mortimer Street, London, England, W1T 3JJ. United Kingdom	100%	100%
Bakkavor Invest Limited	Dormant non-trading company	Fitzroy Place, 5th Floor, 8 Mortimer Street, London, England, W1T 3JJ. United Kingdom	100%	100%
English Village Salads Limited	Non-trading	Fitzroy Place, 5th Floor, 8 Mortimer Street, London, England, W1T 3JJ. United Kingdom	100%	100%
Bakkavor Fresh Cook Limited	Dormant non-trading company	Fitzroy Place, 5th Floor, 8 Mortimer Street, London, England, W1T 3JJ. United Kingdom	100%	100%
Bakkavor Overseas Holdings Limited	Dormant non-trading company	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%
Laurens Patisseries 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 26 December 2021 to 31 December 2022 (continued)****16 Investments in subsidiaries (continued)**

Name of subsidiary	Principal activity	Registered office	Proportion of voting rights and shares held	
			2022	2021
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%
Exotic Farm Prepared 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 Asia Limited	Dormant non-trading company	Fitzroy Place, 5th Floor, 8 Mortimer Street, London, England, W1T 3JJ. United Kingdom	100%	100%
Bakkavor Desserts Leicester Limited	Dormant non-trading company	Fitzroy Place, 5th Floor, 8 Mortimer Street, London, England, W1T 3JJ. United Kingdom	100%	100%

* indicates direct investment of the Company.

Bakkavor Foods Limited**Notes to the Financial Statements for the Period from 26 December 2021 to 31 December 2022 (continued)****17 Stocks**

	31 December 2022 £ 000	25 December 2021 £ 000
Raw materials and packaging	56,482	48,855
Work in progress	2,358	1,289
Finished goods	7,603	6,589
	<u>66,443</u>	<u>56,733</u>

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

18 Debtors

	31 December 2022 £ 000	25 December 2021 £ 000
Trade debtors	102,870	91,609
Expected credit loss	(1,792)	(2,494)
Net trade debtors	101,078	89,115
Amounts due from Group companies	626,401	597,113
Other debtors	19,692	15,182
Prepayments	9,800	9,004
Total current trade and other debtors	<u>756,971</u>	<u>710,414</u>

Amounts due from Group companies are unsecured, have interest charged of 0% - 10.0% per annum and are repayable on demand.

During the period, the Company has continued to operate trade receivable factoring arrangements. These are non-recourse arrangements and therefore amounts are de-recognised from trade receivables. At 31 December 2022 £138 million was drawn under factoring facilities (2021: £118 million) representing cash collected before it was contractually due from the customer. As at 31 December 2022, the Company's amounts receivable from trade customers includes £62.0 million (2021: £53.8 million), which could be factored under the non-recourse trade receivable factoring arrangement.

19 Derivative financial instruments

The derivative financial instruments wholly 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.

The Company has applied hedge accounting to its forward contracts that were put in place on or after 27 December 2020. 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.

Bakkavor Foods Limited**Notes to the Financial Statements for the Period from 26 December 2021 to 31 December 2022 (continued)****19 Derivative financial instruments (continued)**

Derivative financial instruments have been presented on the Balance Sheet following the Companies Act 2006 format as Current Assets, Current Liabilities and Non-Current Liabilities. The following table sets out the ageing of derivative financial instruments between current and non-current categories:

	Cash flow hedge derivatives £ 000	FVPL derivatives £ 000	Total derivatives £ 000
31 December 2022			
Non-current financial assets	1,485	-	1,485
Current financial assets	2,663	-	2,663
Non-current financial liabilities	(6)	-	(6)
Current financial liabilities	(228)	-	(228)
	<u>3,914</u>	<u>-</u>	<u>3,914</u>
	Cash flow hedge derivatives £ 000	FVPL derivatives £ 000	Total derivatives £ 000
25 December 2021			
Non-current financial assets	26	-	26
Current financial assets	183	-	183
Non-current financial liabilities	(30)	-	(30)
Current financial liabilities	(1,211)	(809)	(2,020)
	<u>(1,032)</u>	<u>(809)</u>	<u>(1,841)</u>

The effective portion of changes in the fair value of derivatives 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, during 2022 a gain of £4,946,000 (2021: loss of £1,032,000) was recognised in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the Profit and Loss Account, and is included in the 'other gains and losses' line item. At 31 December 2022, the outstanding contracts accounted for under hedge accounting all mature within 18 months of the period end. The Company is committed to buy €133,600,000 and \$14,458,000 for a fixed sterling amount under these contracts.

Financial assets/liabilities are stated at fair value. Any resultant gain or loss on contracts entered into on or before 26 December 2020 is recognised in the Profit and Loss Account. At 31 December 2022, there are no outstanding contracts accounted for at FVPL (2021: all contracts accounted for at FVPL mature within 6 months of the period end).

The forward currency contracts are measured at fair value, which is determined using valuation techniques that utilise observable inputs. The key assumptions used in valuing the derivatives are the exchange rates for GBP:EUR and GBP:USD. For further details regarding the forward currency contracts, please see pages 201 to 203 of the Bakkavor Group plc Annual Report & Accounts 2022.

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.

Bakkavor Foods Limited

Notes to the Financial Statements for the Period from 26 December 2021 to 31 December 2022 (continued)

20 Creditors: Amounts falling due within one year

		31 December 2022 £ 000	25 December 2021 £ 000
	Notes		
Trade creditors		254,041	209,949
Amounts due to Group companies		161,895	138,908
Other creditors		20,262	17,316
Accruals		97,638	112,496
Corporate tax payable		-	1,124
Derivative financial instruments	19	228	2,020
Lease liabilities	21, 22	11,891	13,168
Other borrowings	21	4,190	4,150
		<u>550,145</u>	<u>499,131</u>

Amounts due to Group companies are unsecured, have interest charged between 0% and 9.0% and are repayable on demand.

During 2019, the Company set up an arrangement to provide financing for the Company's suppliers. This is a voluntary programme that potentially gives suppliers earlier access to cash. At 31 December 2022, trade creditors amounting to £45,053,000 (2021: £31,585,000) were subject to these arrangements. These balances are classified as trade creditors, 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 creditors include the Company's liabilities in respect of payroll taxes.

The corporation tax payable of £Nil (2021: £1,124,000) is stated net of the Company's corporation tax instalment payments on account.

21 Loans and borrowings

	31 December 2022 £ 000	25 December 2021 £ 000
Non-current loans and borrowings		
Obligations held under leases	62,954	69,546
Other borrowings	<u>25,228</u>	<u>29,672</u>
	<u>88,182</u>	<u>99,218</u>
Current loans and borrowings		
Obligations held under leases	11,891	13,168
Other borrowings	<u>4,190</u>	<u>4,150</u>
	<u>16,081</u>	<u>17,318</u>

Bakkavor Foods Limited**Notes to the Financial Statements for the Period from 26 December 2021 to 31 December 2022 (continued)****21 Loans and borrowings (continued)**

The Company's exposure to market and liquidity risk is disclosed in the Strategic Report.

Other borrowings relate to an Asset Finance Facility, which 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 £24,883,000, with £19,301,000 outstanding as at 31 December 2022. 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 31 December 2022 was 2.41% (2021: 2.41%). The interest rate is fixed at the prevailing rate on commencement of the loan tranche. Secondly, the Group drew down £13,074,000 in 2021 under a separate asset financing facility, with £10,306,000 outstanding as at 31 December 2022. 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 31 December 2022 is 3.20% (2021: 3.20%). The interest rate is fixed at the prevailing rate on commencement of the loan tranche.

22 Leases

The Company leases assets including land and buildings and plant and machinery that are held within property, plant and equipment. Information about leases for which the Company is a lessee is presented below.

	Land and buildings £ 000	Plant and machinery £ 000	Total £ 000
Balance at 26 December 2021	72,540	2,782	75,322
Additions	5,688	309	5,997
Depreciation	(13,208)	(1,108)	(14,316)
Impairment	(301)	(343)	(644)
At 31 December 2022	<u>64,719</u>	<u>1,640</u>	<u>66,359</u>

Lease liabilities

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

		31 December 2022 £ 000	25 December 2021 £ 000
Current liabilities	Note 20	11,891	13,168
Non-current liabilities	Note 23	62,954	69,546
		<u>74,845</u>	<u>82,714</u>

The weighted average lease term outstanding is 15.0 years (2021: 14.3 years). For 2022, the weighted average incremental borrowing rate was 2.99% (2021: 3.01%). 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 Company's lease obligations are secured by the lessors' rights over the leased assets.

The Company 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.

Bakkavor Foods Limited**Notes to the Financial Statements for the Period from 26 December 2021 to 31 December 2022 (continued)****22 Leases (continued)****Amounts recognised in the Profit and Loss Account**

	2022	2021
	£ 000	£ 000
Interest on lease liabilities	2,760	2,532
Expenses relating to low-value leases	1,216	1,301
Expenses relating to short-term leases	575	560
	<u>4,551</u>	<u>4,393</u>

Cash payments made for leases

	31 December	25 December
	2022	2021
	£ 000	£ 000
Total cash outflow	<u>16,423</u>	<u>17,107</u>

23 Creditors: Amounts falling due after more than one year

		31 December	25 December
		2022	2021
		£ 000	£ 000
Derivative financial instruments	19	6	30
Lease liabilities	21, 22	62,954	69,546
Other borrowings	21	25,228	29,672
		<u>88,188</u>	<u>99,248</u>

24 Provisions

	Onerous contracts	Dilapidation provisions	Legal and other provisions	Restructuring provisions	Total
	£ 000	£ 000	£ 000	£ 000	£ 000
At 26 December 2021	1,597	15,891	3,853	-	21,341
Additional provisions	309	2,044	-	16,578	18,931
Provisions used	(250)	-	(101)	(1,761)	(2,112)
Unused provision reversed	(207)	-	(2,568)	-	(2,775)
Unwinding of discount	200	603	-	-	803
At 31 December 2022	<u>1,649</u>	<u>18,538</u>	<u>1,184</u>	<u>14,817</u>	<u>36,188</u>

Onerous contracts provisions brought forward from the end of 2021 relate to the Company's leased vacant properties. During the year an additional onerous contract provision of £309,000 was made in respect of one of the Company'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 18 years.

Bakkavor Foods Limited**Notes to the Financial Statements for the Period from 26 December 2021 to 31 December 2022 (continued)****24 Provisions (continued)**

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 28 years.

The legal and other provisions, which are expected to be settled within 12 months and have decreased by £2,669,000 in the year (2021: net decrease of £2,213,000), are assessed by utilising Group experience, legal and professional advice and other commercial factors to reasonably estimate present obligations for the Company. These obligations are varied and depend on future events which are by their nature uncertain. The Company has taken this uncertainty into account and considers the provision to be reasonable in the circumstances. The Company 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.

During the year, a restructuring provision has been recognised for the closure of two of our UK sites and the costs of a corporate restructuring. Further details of the exceptional charges incurred during the year for this restructure can be found in Note 5.

25 Called up share capital**Allotted, called up and fully paid shares**

	31 December 2022		25 December 2021	
	No. 000	£ 000	No. 000	£ 000
Ordinary shares of £1 each	35,264	35,264	35,264	35,264
Ordinary A shares of £1 each	4,642	4,642	4,642	4,642
	<u>39,906</u>	<u>39,906</u>	<u>39,906</u>	<u>39,906</u>

26 Reserves***Share premium account***

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

Hedge 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 the Profit and Loss Account 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).

Profit and Loss Account

The Company paid a dividend of £48,830,000 during the period (2021: £100,000,000). The final dividend in relation to 2022 of £29,500,000 was paid on 26 May 2023.

Bakkavor Foods Limited

Notes to the Financial Statements for the Period from 26 December 2021 to 31 December 2022 (continued)

27 Retirement benefit 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 the Profit and Loss Account of £11,739,000 (2021: £10,631,000) represents contributions payable to these schemes by the Company at rates specified in the rules of the plans. At 31 December 2022 £2,354,000 was owing for the defined contribution scheme and included in accruals (2021: £2,251,000).

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 2019. The results were updated for IAS 19 'Employee Benefits' purposes to 31 December 2022 by a qualified independent actuary with Willis Towers Watson. Under IAS 19 valuation principles, a surplus of £12,751,000 (2021: surplus of £37,151,000) has been recognised in the Balance Sheet.

A charge of £600,000 (2021: £1,100,000) has been recognised in the Profit and Loss Account during the period.

The Company recognised an actuarial loss of £26,300,000 (2021: gain of £24,500,000) has been recognised in the Statement of Other Comprehensive Income.

The pension plan shares risk with other Group entities. The Company acts as sponsor for the pension plan, incurs the net defined benefit costs and pays the pension contributions (with access to the Group's debt facilities). For more information on Bakkavor Group Pension Schemes, please refer to Note 32 within the Bakkavor Group plc Annual Report 2022.

28 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. There is no provision in the Company Financial Statements (2021: £nil).

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 £455.0 million (2021: £455.0 million).

As at 31 December 2022, the Company had purchase commitments for the next 12 months to guarantee supply and price of raw materials of £145.5 million (2021: £141.5 million).

The Company has letters of credit issued totalling £1.0 million (2021: £1.0 million).

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

Bakkavor Foods Limited

Notes to the Financial Statements for the Period from 26 December 2021 to 31 December 2022 (continued)

30 Alternative performance measures

The Company manages the performance of the business through the use of 'Adjusted operating profit', as this measure excludes the impact of items that hinder comparison of profitability year-on-year. In calculating Adjusted operating profit, the Company's management exclude restructuring costs, asset impairments, costs incurred to configure or customise 'software as a service' (SaaS) arrangements, and those additional charges or credits that are considered significant or one-off in nature.

SaaS arrangements are service contracts providing the Company with the right to access the cloud provider's application software over the contract period. Costs incurred to configure or customise, and the ongoing fees to obtain access to the cloud provider's application software, are recognised as operating expenses when the services are received, unless the configuration and customisation activities significantly modify or customise the cloud software, in which case the costs are expensed over the SaaS contract term. The Company adjusts for the cost of these projects as they are infrequent in nature and relate to significant systems changes within the business.

The following table provides a reconciliation from the Company's Operating profit to Adjusted operating profit:

	2022 £ 000	2021 £ 000
Operating profit	45,401	90,944
Exceptional items	36,403	-
Configuration and customisation costs for SaaS projects	1,493	-
Adjusted operating profit	<u>83,297</u>	<u>90,944</u>