

Registration number: 01060806

Bakkavor Foods Limited

Annual Report and Financial Statements

for the Period from 29 December 2019 to 26 December 2020



Bakkavor Foods Limited

Contents

Company Information	1
Directors' Report	2 to 5
Strategic Report	6 to 22
Independent Auditors' Report	23 to 25
Profit and Loss Account	26
Statement of Comprehensive Income	27
Statement of Changes in Equity	28
Balance Sheet	29
Notes to the Financial Statements	30 to 65

Bakkavor Foods Limited

Company Information

Directors A Gudmundsson
 M Edwards
 B Waldron

Company secretary A Tagoe-Bannerman

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

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

**Independent
Auditors** PricewaterhouseCoopers LLP
 One Chamberlain Square
 Birmingham
 B3 3AX
 United Kingdom

Bakkavor Foods Limited

Directors' Report for the Period from 29 December 2019 to 26 December 2020

The Directors present their report and the audited financial statements for the 52 week period from 29 December 2019 to 26 December 2020 ('2020'). Comparatives are for the 52 week period from 30 December 2018 to 28 December 2019 ('2019').

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;
- Employee involvement;
- Engagement with other stakeholders;
- Research and development; and
- Future development of the Company.

Corporate Governance Statement

For the year ended 26 December 2020 under The Companies (Miscellaneous Reporting) Regulations 2018, the Company has applied the Wates Corporate Governance Principles for Large Private Companies which can be found at www.wates.co.uk/who-we-are/corporate-governance. Set out on pages 6 to 17 is an explanation of how the Wates Principles have been applied during the 2020 year.

Engagement with Employees

The Directors of the Company, supported by the Management Board oversees workforce engagement. 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 reports this to the Group Board, providing regular updates on colleague engagement at Group Board meetings. The Directors of the Company sit on both the Management Board and Group Board, and through these channels have oversight of the concerns and suggestions of the colleagues, which in turn, shape the decision-making process for the Company.

For further information on the Company's statement on engagement with, and having regard to, the interests of employees please see the Strategic report on page 6 and the Group Annual Report and Accounts 2020 on page 60.

Engagement with Stakeholders

The Directors of the Company, supported by the Management Board, oversee the proactive engagement with suppliers, customers, investors and the community. The Management Board receives regular updates on stakeholder engagement and reports this to the Group Board, providing regular updates on stakeholder engagement at Group Board meetings. The Directors of the Company sit on both the Management Board and Group Board, and through these channels have oversight of stakeholder views, which in turn, shape the decision-making process for the Company.

For further information on the Company's statement on engagement with, and having regard to, the interests of its key stakeholders, please see the Strategic report on page 6 and the Group Annual Report and Accounts on pages 20 to 21.

Bakkavor Foods Limited

Directors' Report for the Period from 29 December 2019 to 26 December 2020 (continued)

Principal activity

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

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 through to December 2022.

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 cash reserves and its access to the Group's financing arrangements and the level of available liquidity under those arrangements which were renewed on 18 March 2020 for a four-year period, with the majority of the arrangement further extended in March 2021 to March 2025. 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. The Company also has a letter in place from the ultimate parent confirming that additional amounts will be advanced to the Company if needed, and intercompany creditor balances classified as repayable on demand will not be recalled by any fellow group company for at least twelve months from the date of signing of the financial statements unless alternative financing arrangements are available. The Directors have carried out a robust assessment of the potential implications from both the current COVID-19 outbreak and the terms of the UK's exit from the European Union at the end of 2020. This has included updated scenario planning on the implications of further waves of COVID-19 and the potential for further lockdown restrictions which may impact consumer demand for the Group's products. The Group has also modelled the potential impact of further disruption on sales volumes and an increase in operating costs as, from the start of 2021, the business now operates under the terms of the trade deal agreed by the UK and the EU at the end of 2020. Having taken these factors into account the Directors consider that adequate headroom is available based on the forecasted cash requirements of the business.

Consequently, the Directors continue to adopt the going concern basis in preparing the Financial Statements.

Bakkavor Foods Limited

Directors' Report for the Period from 29 December 2019 to 26 December 2020 (continued)

Financial risk management

Foreign currency risk

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 more than 86% (2019 - 85%) 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 in a range of maturities at least 12 months beyond the period end.

Directors of the company

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

A Gudmundsson

The following directors were appointed after the period end:

M Edwards (appointed 29 June 2021)

B Waldron (appointed 29 June 2021)

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 29 December 2019 to 26 December 2020 (continued)

Directors' Responsibilities Statement

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

Company law 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 also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

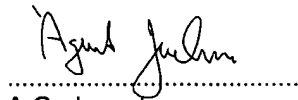
The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies 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.

Approved by the Board on 28 September 2021 and signed on its behalf by:



.....
A Gudmundsson
Director

Bakkavor Foods Limited

Strategic Report for the Period from 29 December 2019 to 26 December 2020

The Directors present their strategic report for the period from 29 December 2019 to 26 December 2020.

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

The Company's operations account for 84.6% 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 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 serves as the framework to demonstrate how the Directors of the Company had regard for the matters set out in section 172(1)(a) to (f) of the Act when performing their duties, including how the Directors engaged with and considered the interests of stakeholders including customers, suppliers, colleagues 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 on pages 20-25 of the Group's Annual Report, which does not form part of this report.

Corporate Governance Statement

For the period ended 26 December 2020 under The Companies (Miscellaneous Reporting) Regulations 2018, the Company has applied the Wates Corporate Governance Principles for Large Private Companies which can be found at www.wates.co.uk/who-we-are/corporate-governance. Set out below is an explanation of how the Wates Principles have been applied during the 2020 year.

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 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 the Company's products predominantly under their respective private labels.

The Company's purpose and values are aligned to the purpose and values of the Group:

To provide the high-quality food that fast-paced modern living demands, allowing people to focus on what really matters.

The Company's mission is to develop and produce innovative, commercially successful, great-tasting food that offers choice, convenience and freshness to people around the world.

Bakkavor Foods Limited

Strategic Report for the Period from 29 December 2019 to 26 December 2020 (continued)

Underpinning the Company's purpose are the following key values:

- **Customer care:** The Company is committed to supplying outstanding service, quality, and value, never forgetting that its relationship with customers is key to its success.
- **Innovation:** The Company thrives on new challenges, looking for innovative ways to grow and improve its business further.
- **Can-do-attitude:** The Company encourages personal initiative and empowers its people to make things happen. The Company's motivation comes from its determination to succeed in all it does.
- **Teamwork:** Everyone has a valuable part to play in the success of the Company's business. The Company aims to communicate effectively and is committed to the highest standards of ethics and integrity.
- **Getting it right, keeping it right:** The Company works to deliver the right results every time in the most effective way providing value for its customers.

The Group Board provides effective and entrepreneurial leadership of the whole Group by setting the purpose and strategic direction. 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. Members of the Management Board regularly meet with Site Employee Forums ("SEF") and the Group Employee Forum ("GEF") to discuss the Company's purpose with, and understand the views of, the workforce.

The Group Board is also responsible for assessing, monitoring and promoting the Group's culture and ensuring that this is closely aligned with its strategy and delegates the implementation of the Group's culture to the Management Board. All Directors act with integrity and lead by example to promote the desired culture. Moreover, the Management Board endeavours to ensure that workforce policies and practices are in line with the Group's values and support its long-term sustainable success.

The Management Board provide the Group Board with updates on the development of human resources at Bakkavor, and the key areas of focus for delivery, including modernising supporting technological infrastructure, investing in leadership capabilities across the business 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 insights, colleagues' views and responses to changes in the business (via a mid-year employee pulse survey), and launching the Bakkavor Employee Health & Wellbeing Toolkit to help to protect employees' health and wellbeing during this challenging time.

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

Strategy

Leveraging number one position in the UK

The Company's strategy in the UK is to leverage its number one position in the fresh prepared food market to profitably grow the business and generate value for all stakeholders. This is done by strengthening partnerships with existing customers, exploiting insight, innovation and breadth of capability and pursuing strategic investments to accelerate growth and improve returns.

Bakkavor Foods Limited

Strategic Report for the Period from 29 December 2019 to 26 December 2020 (continued)

Key Trusted Partner Corporate Responsibility commitments

- Work towards the Company's Champions 12.3 target of halving food waste by 2030
- Support The UK Plastics Pact's goals of eliminating problematic plastic packaging, using only recyclable/ compostable packaging and at least 30% average recycled content in plastic packaging by 2025.

What the Company has achieved:

- Maintained the number one position in the UK fresh prepared food market attributable to the Company's leadership in innovation, diversified product portfolio and swift rebalancing of capacity across the business to better serve changing consumer needs;
- Protected colleagues through enhanced safety standards and additional controls in factories and offices across the Group, and delivered an online portal and one-stop shop for all health and safety advice;
- Maintained industry-leading service level, despite the impact of COVID-19 on the Company's supply chain and operations, by implementing an agile decision-making process and collaborating more closely with customers and suppliers;
- Protected the Company's financial stability by focusing on cash, taking dynamic action to manage volatility and reshaping the business for future growth;
- Established and implemented a robust plan to mitigate the risk of Brexit through investment in capabilities, information systems, inventory, centralisation of ordering and workforce review;
- Launched an Inclusion and Diversity Policy to progress the workplace culture and provide further opportunities for employees to develop and succeed; and
- Issued zero FSA food safety and allergen recalls.

Future focus areas

- Leverage the Company's strong customer relationships and delivery track record to maintain the Company's market leading positions and increase its share in underpenetrated categories;
- Maintain flexibility in operations and supply chain to deal with unplanned disruption and changes in consumer demand as COVID-19 and Brexit unfold through the year;
- Rebalance the capital expenditure through a targeted and disciplined approach to improve returns;
- Continue to develop and adapt the Company's safety standards and controls in line with the latest guidance to ensure the health and safety of all colleagues across the Group; and
- Explore inorganic growth opportunities within the fresh prepared food market to broaden the Company's capabilities and bolster its proposition to customers.

Improving operational efficiency

The Company continues to invest in operational efficiencies to support its strategy and to help offset margin pressures across the business. This is done by investing in automation, people training and continuous process improvement, reviewing the Company's footprint and business value chain to identify efficiency opportunities and sharing best practice across the business.

Bakkavor Foods Limited

Strategic Report for the Period from 29 December 2019 to 26 December 2020 (continued)

Key Trusted Partner Corporate Responsibility commitments

- Achieve Net Zero carbon emissions across the Group operations by 2040
- Demonstrate a continued commitment to H&S measurement and performance improvement, targeting zero serious accidents across the Group.

What the Company has achieved:

- Rationalised the Company's product range to support customers during lockdowns and maintain profitability through streamlined operations;
- Reviewed the footprint of the UK salad business in response to changing consumer demand and loss of a contract, leading to the closure of the site in Alresford and a factory in Spalding;
- Started the roll-out of a new operations management system across UK sites to increase control over factories and highlight opportunities for efficiency gains;
- Reduced the Company's cost base by reducing discretionary expenditure and restructuring management and support structures across the business; and
- Extracted further synergies and efficiencies across the UK desserts business by completing the integration of recent acquisitions and rationalising capacity.

Future focus areas

- Lessen dependence on agency labour to lower labour turnover, reduce business disruption and increase people effectiveness by developing the employer brand and attraction strategy, including focus on wellbeing;
- Challenge the Company's capital plans to prioritise efficiency projects with high return on investment;
- Reduce food waste to generate savings and lower the environmental footprint of operations; and
- Develop and implement structured continuous improvement processes across international operations to unlock productivity gains.

Bakkavor Foods Limited

Strategic Report for the Period from 29 December 2019 to 26 December 2020 (continued)

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.”

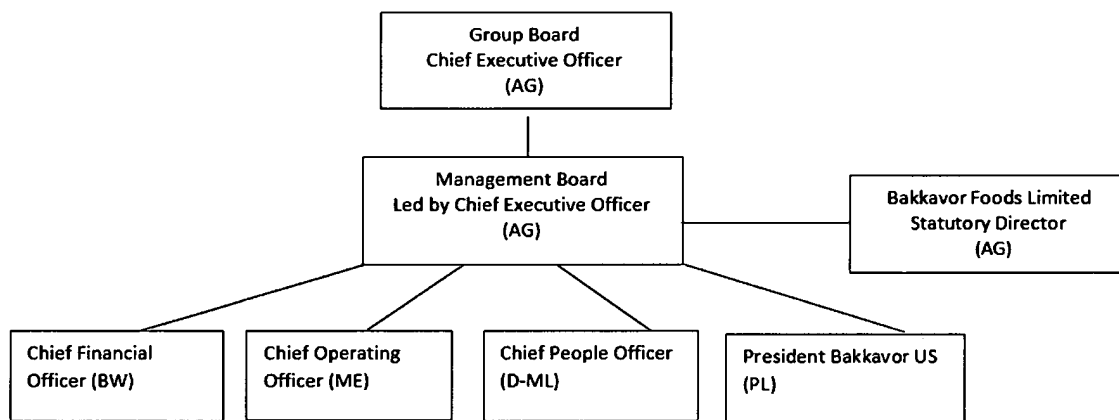
The Directors of the Company

The Directors of the Company are Agust Gudmundsson, Ben Waldron and Mike Edwards. They are supported by the Management Board for the day to day management of the Company. The Management Board reports to the Group Committees and the Group Board. The Directors of the Company sit on both the Management Board and Group Board.

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 - Agust Gudmundsson (AG)
- Chief Financial Officer - Ben Waldron (BW)
- Chief Operating Officer - Mike Edwards (ME)
- President Bakkavor US - Pete Laport (PL)
- Chief People Officer - Donna-Maria Lee (D-ML)

Board Structure



Bakkavor Foods Limited

Strategic Report for the Period from 29 December 2019 to 26 December 2020 (continued)

The Management Board

The Management Board implements the purpose, values and strategic objectives set by the Company. It determines investment policies and delegates the detailed planning and implementation of those objectives and policies to Senior Management (being the senior 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 Management accountable for its activities through monthly and quarterly performance reporting and budget updates.

The responsibilities delegated to the Management Board cover the following areas:

- Preparing strategic proposals, corporate plans and budgets
- Executing the strategy agreed upon by the Company
- 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. The Group Nomination Committee's succession planning review during the year included arrangements relating to contingency planning for sudden and unforeseen departures and medium-term planning to ensure the orderly replacement of current Management Board members and Senior Executives (e.g. retirement).

During the year, the Group Nomination Committee undertook a skills audit to map the Group Board and Management Board's existing skillset, personal attributes and expected behaviours against those required to oversee and execute corporate strategy. The Group Nomination Committee is confident that the Management Board has the necessary mix of skills and experience to contribute to the Company's strategic objectives.

For further information please see the 'Report of the Group Nomination Committee' on pages 102 to 105 of the Bakkavor Group plc Annual Report 2020.

Bakkavor Foods Limited

Strategic Report for the Period from 29 December 2019 to 26 December 2020 (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. The Management Board met 38 times during the year. The meetings were focused on proposing and executing agreed strategy, executing actions in relation to key decisions such as investments, mergers and acquisitions; Monitoring performance and evaluation of health and safety, engagement with stakeholders including workforce engagement; and reviewing and approving revised policies prior to approval by the Group Board, such as the Anti-Bribery and Business Ethics Policy, Inclusion and Diversity Policies, Whistleblowing Policy, Charity and Political donations policy and most recently the gender pay gap policy. The Management Board are also responsible for identifying and managing risks, which are reported to the Group’s Audit & Risk Committee and the Group Board.

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 with the interests of the Company.

In accordance with the Companies Act 2006, the Company’s Articles of Association allow 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 statutory 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.

Bakkavor Foods Limited

Strategic Report for the Period from 29 December 2019 to 26 December 2020 (continued)

The Company's strategic positioning:

- Focus on developing fresh prepared food in retail markets
- Scale and market-leading position across all four product categories
- Long-standing partnerships with the Company's four strategic customers
- Strong insight, innovation and new product development capabilities

Risk

The Company's principal risks and uncertainties are set out on pages 18 to 22 of the Company's Strategic Report for the Period from 29 December 2019 to 26 December 2020.

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 following framework: 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.

Management teams escalate new or changing risk to their respective risk committees 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.

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 statutory Directors of the Company is aligned to the Group Directors' Remuneration 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 Group's 2018 Directors' Remuneration Policy reached the end of its three-year life and a new 2021 Policy was approved by shareholders at the Group's AGM on 20 May 2021.

Bakkavor Foods Limited

Strategic Report for the Period from 29 December 2019 to 26 December 2020 (continued)

The Group's Remuneration Committee undertook a comprehensive review of the Group Directors' Remuneration Policy and concluded that the current policy remained appropriate and that there should be no change to the structure of packages or to incentive quantum. The changes that were introduced were primarily aimed at ensuring the 2021 Policy remained aligned to high standards of good governance and took account of developments in this regard over the period since the approval of the current policy.

The Group Directors' Remuneration Policy is designed to:

- Attract, retain and motivate high-calibre Senior Executives and focus them on the delivery of the Group's strategic and business objectives;
- Take into account prevailing market and economic conditions and the approach to employee pay throughout the organisation;
- 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 was the sole Director of the Company, received the following remuneration:

2020 Annual base salary

Agust Gudmundsson: £577,000

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.

In response to the COVID-19 pandemic, the Group Board and Management Board agreed on voluntary reductions in salary/fees for three months. Agust Gudmundsson did not take a salary or fee during this period. The wider Management Board also agreed to a voluntary 20% reduction to their base salaries. The Company's policy has been to review workforce salaries in the middle of the year with increases effective from 1 July. During 2020, the decision was taken not to go ahead with the general workforce increase. Reflecting this decision, Agust Gudmundsson's base salary was re-set to 2019 levels with effect from 1 July 2020 after the three-month period of voluntary reductions.

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 share provides a retention element and alignment with shareholders.

No annual bonus was awarded to Agust Gudmundsson in 2020. Agust Gudmundsson does not participate in the LTIP scheme.

Bakkavor Foods Limited

Strategic Report for the Period from 29 December 2019 to 26 December 2020 (continued)

2020 Pension Entitlement

Agust Gudmundsson: £115,000

The Group aims to provide a contribution towards life in retirement. Reflecting investors' views in this area, Agust Gudmundsson's pension contribution for 2021 decreased from 15% of salary to 3% of salary with effect from 1 February 2021 to be in line with the workforce rate.

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 customers, suppliers, colleagues and communities.

Customers:

The Company's customers include all the well-known UK grocery retailers as well as some of the world's best known international food brands. Ensuring customers are central to decision-making is critical in delivering on the Company's strategy. This year, particularly in light of the challenges presented by COVID-19, the Directors of the Company, supported by the Management Board, focused on maintaining supply, minimising disruption and providing high standards of service. In order to implement this strategy, the Management Board made the decision to work closely with customers to simplify the Company's ranges, reduce SKUs and shift production between the portfolio of sites to ensure availability of the Company's products during this difficult period. Close engagement between the Management Board and the Company's customers on maintaining high technical standards has been maintained as operational changes were made in line with government guidance.

Suppliers:

The Company has a global base of suppliers with whom it collaborates with closely, including in areas such as responsible sourcing and detailed Brexit-related planning. The long-term partnerships with over 750 suppliers are an important factor in the Company's ability to innovate and add value. In the year, COVID-19 presented major challenges and the global supply chain platform and trusted partnerships with suppliers enabled the Company to minimise disruption and ensure continuity of supply.

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. During the year, the Management Board engaged with the Company's suppliers and customers to review potential risks within the supply chain because of the COVID-19 pandemic. This included detailed analysis on where the ingredients and chemicals in the Company's products were sourced and finding alternatives as COVID-19 restrictions moved around the globe.

Colleagues

The Company has circa 16,000 colleagues located in 28 locations across 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.

Bakkavor Foods Limited

Strategic Report for the Period from 29 December 2019 to 26 December 2020 (continued)

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 reports this to the Group Board, providing regular updates on colleague engagement at Group Board meetings. 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.

During the year, the significant loss of business in the Company's UK salads category meant that sites at both Alresford and Spalding entered into consultation with the colleagues employed there and subsequently closed, as the Management Board took steps to protect the Company's long-term sustainable profitability and margins. The Company's Senior Executives and Management Board engaged with colleagues before and throughout the consultation process to obtain their views and ensure they were well informed of the steps being taken. This was a difficult decision that the Company did not take lightly. Having reviewed all possible options, there was no alternative proposal during the consultation processes that would provide a viable solution to the challenges faced at each site. Following the consultation process, the Company worked closely with employee representatives to support those impacted by trying to secure alternative roles within the business.

During the pandemic, the Directors of the Company, supported by the Management Board, focused on further prioritising the health, safety and wellbeing of all of its colleagues and implemented a number of additional controls and enhanced safety measures. An employee wellbeing programme was also launched to offer colleagues emotional, physical and financial support.

Details of the Group's approach to employee engagement can be found on page 60 of the Bakkavor Group plc Annual Report 2020.

Employment of disabled persons

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

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.

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

Preserving the links the Company has in the communities in which it operates is an important factor. At Group level, this has helped shape the Trusted Partner Corporate Responsibility strategy. 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.

As part of the Streamlined Energy and Carbon Reporting (SECR), the Company has measured and reported its UK energy use and related Scope 1 & 2 Greenhouse Gas (GHG) emissions for the year to December 2020, which can be found on page 52 of the Bakkavor Group plc Annual Report 2020.

Bakkavor Foods Limited

Strategic Report for the Period from 29 December 2019 to 26 December 2020 (continued)

As part of the Company's wider community responsibility, new strategies have been introduced to broaden the Company's sustainability goals and to make positive progress on the issues that matter most for the Company's stakeholders. Highlights include a comprehensive supply chain risk mapping, setting a goal for carbon emissions, a wide-reaching wellbeing programme and the launch of a new Inclusion and Diversity Policy.

The Management Board receives regular updates on engagement and preserving the links the Company has in the communities in which it operates which it reports to the Group Board. Through these channels the Directors of the Company have oversight of community engagement and the progress of the Company's Trusted Partner Corporate Responsibility strategy.

Engagement with other stakeholders

Details surrounding the Company's stakeholder engagement and corporate responsibilities policies can be found within the "Engagement and Wellbeing in our Workplaces and Communities" section, on page 43, of the Bakkavor Group plc Annual Report 2020.

Fair review of the business and Key Performance Indicators

As shown in the Profit and Loss account, the Company's turnover decreased by £83,699,000 (5.2%) from £1,601,143,000 in 2019 to £1,517,444,000 in the current year. This decrease is largely attributable to the impact of COVID-19 restrictions on consumer demand which significantly impacted both the salads category and particularly food-to-go products. Despite this reduction in turnover, Gross Profit maintained a similar level to prior year, with Gross Margin increasing from 27.7% in the prior year to 28.6%. This was due to decisive mitigating actions being taken at an early stage of the pandemic to protect the overall business, preserve cash and lower the cost base. Further the Company furloughed a number of its employees across its sites for varying periods of time, under the UK Government's Coronavirus Job Retention Scheme, amounts received by the Company constitute a government grant and the Company recognised £12,800,000 as a reduction to staff costs in respect of this grant.

The Company has incurred exceptional costs that are not expected to reoccur of £21,221,000 as shown in Note 9 (2019: £12,877,000). The profit for the period after taxation amounted to £46,658,000 (2019: £60,858,000) a decrease of £14,200,000.

Adjusted EBITDA (Earnings before interest, tax, depreciation, amortisation, impairments, share scheme charges (non-cash), profit/loss from disposal of investments, exceptional items and IFRS 16 impact) was £122,877,000 (2019: £139,681,000) a decrease of £16,804,000 or 12.0% compared to the prior period, please see Note 32 for further information regarding Adjusted EBITDA.

Adjusted operating profit was £80,334,000 (2019: £102,308,000) a decrease of £21,974,000 or 21.5% compared to the prior period, please see Note 32 for further information regarding Adjusted operating profit.

The trade and assets of Bakkavor Desserts Leicester Limited were hived up to the Company at book value of £1,722,000 on 22 November 2020.

The Directors do not recommend the payment of a final dividend (2019 - £nil). The Balance Sheet shows net assets amounting to £833,428,000 (2019: £786,365,000) an increase of £47,063,000.

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 38 to 41 of the Bakkavor Group plc Annual Report 2020.

Bakkavor Foods Limited

Strategic Report for the Period from 29 December 2019 to 26 December 2020 (continued)

Principal risks and uncertainties

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

COVID-19 pandemic

During the year, as the situation has continued to evolve, the Company put in place a number of actions to mitigate the potential impacts to the business. The key risks to the Company's business can largely be assessed under three general headings: People management, Supply chain and logistics and Consumer demand.

1. People management

The presence of COVID-19 in the local communities in which we operate has the potential to impact the health and safety of our colleagues and can lead to a shortage of core staff in our factories. Our business is a mix of both highly automated and labour-intensive production, and most sites operate 24/7 and 364 days a year. Should a large number of employees be off work, it is possible that we might have to reduce our output to match labour availability. During the first lockdown in 2020, some of our sites experienced high levels of staff absence due to illness, self-isolation and shielding. Weak consumer demand during this period offset much of the impact of staff shortages.

2. Supply chain and logistics

A second risk to our business could be an interruption to our raw material supply chain. Due to the short shelf-life of a number of raw materials that we hold in stock, we are used to operating a sophisticated supply chain that ensures we can procure, manufacture and distribute product every day. Our raw materials are sourced from across the world, with approximately 37% from the EU and 16% from other parts of the world. With low stocks held at site, any disruption in the supply of our raw materials could mean we are unable to meet orders for particular products. Furthermore, in the event of broader economic stress in the regions in which our suppliers operate, we could find availability and cost of our key raw materials under pressure.

3. Consumer demand

Finally, demand for our products has been affected by consumers changing their buying preferences. There is uncertainty for us around how long this will impact our business volumes.

Bakkavor Foods Limited

Strategic Report for the Period from 29 December 2019 to 26 December 2020 (continued)

Brexit disruption

The introduction of EU and UK border controls has led to increased administrative costs and may lead to food inflation. In addition to this, new immigration controls could affect labour availability.

1. Disruption at ports of entry

The new administrative procedures required at the ports of entry into the UK, notwithstanding the transitional arrangements that the UK Government have introduced, could lead to a shortage of supplies and disruption to the manufacturing and delivery process.

2. Shortage of customs clearance services

The customs clearance industry will have to expand massively to cope with the new customs declarations at the UK ports of entry and there is a risk that there will not be enough qualified staff.

3. Accurate customs declarations and security controls for imports

With many UK factories there was a risk that importing from the EU would not be carried out consistently.

4. New border controls for exports to Ireland

Beginning in 2021, exports to the Republic of Ireland and Northern Ireland are now subject to new border control arrangements.

5. Brexit impact on currency movements

Following the transition period it is also possible that Sterling will fall in value, increasing the cost of imports. The additional costs of raw materials will need to be passed on to consumers via higher prices in stores and may reduce consumer demand.

6. Immigration law changes

The new immigration law will restrict our ability to recruit EU staff as the majority of our workforce are paid below the new minimum levels for work visas.

The Company continues to monitor these risks through the Group's Brexit Working Group, which regularly reviews mitigating actions including organisational changes, systems development, customer plans, stock levels and staff retention.

Bakkavor Foods Limited

Strategic Report for the Period from 29 December 2019 to 26 December 2020 (continued)

Operational risks

Food safety and integrity

Millions of people eat our products every day. We have a duty to make food that is safe and is clearly and correctly labelled. Consumer safety and confidence are vital to our business; any issue that breaches that trust could result in loss or reduction of customer business and also impact our credibility and reputation.

As mitigating controls, we have stringent food safety policies in place throughout the organisation and use of Hazard Analysis Critical Control Point principles to identify and control food safety risks. Our employees are trained against documented procedures. Food safety controls are regularly audited by internal and external parties. Emerging risks are monitored by working with industry and regulatory bodies. Food safety audits conducted for new suppliers with regular audits of existing suppliers. There is regular reporting of food safety performance to the Board and immediate reporting of significant issues.

Health and safety ('H&S')

We understand our duty of care to secure and protect the H&S of our employees and to reduce the environmental impact of our operations. Failure to maintain the H&S of employees could have a significant reputational impact and also have serious legal consequences.

As mitigating controls, H&S and environmental impacts are managed by our teams of in-house experts who embed and monitor practices. Stringent processes are implemented for identifying and managing H&S and environmental risks. There is regular reporting of H&S Key Performance Indicators to the Group Board and immediate reporting of significant issues. We have a culture of employee engagement around accident prevention.

Recruitment and retention of key employees

We have a highly experienced management team who are passionate about our business and who are integral to our continued growth and success as a market leader. The loss of any of these personnel or the Company's inability to recruit new personnel would have an adverse impact on the Company. We risk being unable to achieve our strategic growth objectives without the recruitment, development and retention of talented and committed people who understand and respect our values. We use our company values to recruit, appraise, reward and develop employees. There is ongoing succession planning, commitment to training and bonus schemes in place to retain key personnel and manage staff turnover. Further, our graduate recruitment and apprenticeship schemes have been expanded, while training and career development opportunities have been enhanced.

Manpower scarcity and costs

Manpower scarcity and higher labour costs could affect the Company's business and future profitability. The Company competes with other manufacturers for good and reliable employees. The supply of such employees is limited and competition to hire and retain them may result in higher labour costs. Additionally, Brexit presents a risk as historically the Company has employed a material number of citizens from elsewhere in the European Union.

As mitigating controls, we have specific campaigns and focus groups in place targeting recruitment of future employees and building attractiveness of careers in the food industry. Initiatives are in place to enhance and upgrade factory site facilities to help attract and retain employees. We have central staff dedicated to recruitment and management of staff costs. Initiatives are in place to support employees with Brexit-related concerns.

Bakkavor Foods Limited

Strategic Report for the Period from 29 December 2019 to 26 December 2020 (continued)

IT systems and cyber risk

Unauthorised access of the Company's Information Technology ("IT") systems could lead to breaches of data protection and release of market sensitive information.

Any breakdown or failure in the Company's IT infrastructure or the Company's communication networks, including malicious cyber-attacks by third parties, could delay or otherwise impact the Company's day-to-day business.

Group Information Systems ("IS") manage access to business data in the UK through strong password protection, rolebased access to business systems and policies to ensure appropriate use. The risk associated with high levels of home working have been addressed with enhanced processes and the introduction of two factor authentication.

Group IS has strict policies and actively ensures that the IS infrastructure and equipment, in the UK in particular, are sufficiently protected against malicious cyber-attacks. We work closely with our cyber security partner and continue to enhance our controls. In addition, we have cyber insurance and therefore some of the risk of a cyber-attack is passed onto our insurers.

Legal and regulatory

The Company is subject to a wide range of legislation, regulations and codes of practice covering many aspects of our business including food safety, health & safety, data privacy, competition, ethical business, tax and financial reporting. Failure to comply could impact our reputation and lead to financial penalties.

Our legal, financial, tax, and environmental teams monitor relevant laws and regulations to ensure compliance. Our outsourced internal audit team provides assurance on key risks. In 2020 we introduced e-learning for key global policies, including anti-bribery & corruption and cyber security.

Disruption to operations

Disruption could be caused by catastrophic damage to one of our factories by fire, flood or mechanical breakdown, as well as disruption due to information systems failure or pandemics.

Building and property management protocols are employed and audited in conjunction with our property insurers. Business continuity plans are in place for each factory site and for many products alternative Bakkavor factories could supply in the event of a major issue.

Sustainability

To continue with our growth agenda we must ensure that the business is developing in a sustainable way.

Under our Corporate Responsibility strategy, Trusted Partner, we are scaling up our focus and performance monitoring in relation to a number of key areas including carbon, waste, packaging and responsible sourcing.

Bakkavor Foods Limited

Strategic Report for the Period from 29 December 2019 to 26 December 2020 (continued)

Market risks

Customer relationships

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

Consumer behaviour and demand

Changes in consumer demand due to a serious change in the UK economy or other consumption factors could impact our plans. We therefore work closely with our customers to adapt to changing consumer trends.

Raw material and input cost inflation

The Company's cost base and margin are vulnerable to fluctuations in the price and availability of raw materials, packaging materials and freight. Ability to pass on any increases in these costs to customers within a reasonable timeframe is a challenge and failure to do so could impact the Company's profitability and hence its ability to continue to invest in the business.

As mitigating controls, our central procurement team focus on achieving a balance between price, quality, availability and service levels. Forward purchasing is agreed and price variations are passed on where possible while agreements are in place with some customers on recovery of raw material cost impacts.

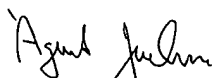
Research and development

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

Future development of the Company

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

Approved by the Board on 28 September 2021 and signed on its behalf by:



.....
A Gudmundsson
Director

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 26 December 2020 and of its profit for the 52 week period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- 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 26 December 2020; the Profit and Loss Account, Statement of Comprehensive Income and 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, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- We obtained management's paper that supports the Board's assessment and conclusions with respect to the disclosures provided around going concern and viability;
- We discussed with management the assumptions applied in the going concern review so we could understand and challenge the rationale for those assumptions, using our knowledge of the business, the sector and wider commentary available from key customers;
- We reviewed monthly trading results to August 2021, and weekly trading results thereafter for 2021 year to date, and compared to management's original budget and revised forecasts, and considered the impact of these actual results on the future forecast period;
- We reviewed management's severe but plausible downside sensitivity scenario. We assessed the availability of liquid resources under the base case and downside scenario modelled by management, and the associated covenant tests applied. We reviewed management's identified mitigating actions to confirm they are within management's control, albeit we note that no significant mitigations are required; and
- We assessed additional downside sensitivities and considered the impact on covenants and liquidity headroom. 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.

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

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 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 26 December 2020 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 Company operates (including Food Safety legislation), and we considered the extent to which non-compliance might have a material effect on the financial statements.

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

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

We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Discussions with management, internal audit and 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;
- Consideration of any changes to the control environment as a result of COVID-19;
- Assessment of matters reported on the whistleblowing helpline, and the results of management's investigation of such matters;
- Review of minutes of those charged with governance;
- Review of internal audit reports;
- Review of key correspondence with regulatory authorities;
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to calculation of customer deduction accruals and the recoverability assessment for goodwill; and
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations which impact revenue, which could manipulate the financial performance of the business.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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.



Arif Ahmad (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds

28 September 2021

Bakkavor Foods Limited

Profit and Loss Account for the Period from 29 December 2019 to 26 December 2020

	Note	2020 £ 000	2019 £ 000
Turnover	4	1,517,444	1,601,143
Cost of sales		<u>(1,083,902)</u>	<u>(1,157,688)</u>
Gross profit		433,542	443,455
Distribution costs		(61,295)	(68,360)
Administrative expenses		(291,913)	(272,787)
Exceptional items	9	<u>(21,221)</u>	<u>(12,877)</u>
Total administrative costs		(313,134)	(285,664)
Operating profit	5	59,113	89,431
Other interest receivable and similar income	6	4,830	5,004
Interest payable and similar expenses	7	(6,856)	(6,301)
Other gains/(losses)	8	<u>2,728</u>	<u>(11,079)</u>
Profit before tax		59,815	77,055
Tax on profit	13	<u>(13,157)</u>	<u>(16,197)</u>
Profit for the period		<u>46,658</u>	<u>60,858</u>

The above results were derived from continuing operations.

The notes on pages 30 to 65 form an integral part of these financial statements.

Bakkavor Foods Limited

Statement of Comprehensive Income for the Period from 29 December 2019 to 26 December 2020

		2020 £ 000	2019 £ 000
Profit for the period		<u>46,658</u>	<u>60,858</u>
Items that will not be reclassified subsequently to profit or loss			
Actuarial gain on defined benefit pension schemes before tax	28	500	8,300
Income tax effect	13	<u>(95)</u>	<u>(1,414)</u>
		<u>405</u>	<u>6,886</u>
Total comprehensive income for the period		<u><u>47,063</u></u>	<u><u>67,744</u></u>

The notes on pages 30 to 65 form an integral part of these financial statements.

Bakkavor Foods Limited

Statement of Changes in Equity for the Period from 29 December 2019 to 26 December 2020

		Share capital £ 000	Share premium £ 000	Profit and loss account £ 000	Total £ 000
At 30 December 2018		<u>39,906</u>	<u>165,094</u>	<u>513,621</u>	<u>718,621</u>
Profit for the period		-	-	60,858	60,858
Other comprehensive income		-	-	6,886	6,886
Total comprehensive income		-	-	67,744	67,744
At 28 December 2019	26	<u>39,906</u>	<u>165,094</u>	<u>581,365</u>	<u>786,365</u>

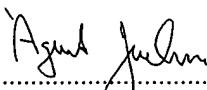
		Share capital £ 000	Share premium £ 000	Profit and loss account £ 000	Total £ 000
At 29 December 2019		<u>39,906</u>	<u>165,094</u>	<u>581,365</u>	<u>786,365</u>
Profit for the period		-	-	46,658	46,658
Other comprehensive income		-	-	405	405
Total comprehensive income		-	-	47,063	47,063
At 26 December 2020	26	<u>39,906</u>	<u>165,094</u>	<u>628,428</u>	<u>833,428</u>

The notes on pages 30 to 65 form an integral part of these financial statements.

Bakkavor Foods Limited**(Registration number: 01060806)****Balance Sheet as at 26 December 2020**

		2020	Restated 2019
	Note	£ 000	£ 000
Fixed assets			
Goodwill and other intangible assets	14	240,357	240,357
Property, plant and equipment	15	399,919	406,394
Investments in subsidiaries	16	8,614	8,614
Retirement benefit asset	28	11,151	9,651
Derivative financial instruments	19	59	-
		<u>660,100</u>	<u>665,016</u>
Current assets			
Stocks	17	55,316	53,614
Debtors	18	713,297	625,701
Derivative financial instruments	19	643	-
Cash at bank and in hand		11,702	6,055
		<u>780,958</u>	<u>685,370</u>
Total assets		<u>1,441,058</u>	<u>1,350,386</u>
Creditors: Amounts falling due within one year	20	<u>(476,686)</u>	<u>(457,356)</u>
Net current assets		<u>304,272</u>	<u>228,014</u>
Total assets less current liabilities		964,372	893,030
Creditors: Amounts falling due after more than one year	23	(92,287)	(74,401)
Provisions	25	(23,432)	(18,013)
Deferred tax liabilities	13	<u>(15,225)</u>	<u>(14,251)</u>
Net assets		<u>833,428</u>	<u>786,365</u>
Capital and reserves			
Called up share capital	26	39,906	39,906
Share premium account	27	165,094	165,094
Profit and loss account		<u>628,428</u>	<u>581,365</u>
Total shareholder funds		<u>833,428</u>	<u>786,365</u>

The financial statements on pages 1 to 65 were approved by the Board on 28 September 2021 and signed on its behalf by:



 A Gudmundsson
 Director

The notes on pages 30 to 65 form an integral part of these financial statements.

Bakkavor Foods Limited

Notes to the Financial Statements for the Period from 29 December 2019 to 26 December 2020

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

In the current period, the Company has adopted the following Standards and Interpretations.

Amendments with no material impact on the Company's financial statements:

Amendments to IAS 1 and IAS 8 Definition of material

Amendments to IFRS 3 Definition of a business, Reference to the Conceptual Framework

Amendments to IFRS 9, IAS 39 and IFRS 7 Interest Rate Benchmark Reform

Amendments to IFRS 16 COVID-19 Related Rent Concessions

2 Accounting policies

Summary of significant accounting policies and key accounting estimates

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

Basis of preparation

These Financial Statements 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 nearest to 31 December, as this is not more than 7 days after or before the end of the period dated 31 December. Where the fiscal year 2020 is quoted in these Financial Statements this relates to the 52 week period ended 26 December 2020. The fiscal year 2019 relates to the 52 week period ended 28 December 2019.

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.

Bakkavor Foods Limited

Notes to the Financial Statements for the Period from 29 December 2019 to 26 December 2020 (continued)

2 Accounting policies (continued)

Restatement

During a review of the Group leases, it was noted that a lease held by fellow group company Bakkavor Desserts Leicester Limited was drawn up in the name of the Company and an implicit sub-lease exists between the Company and Bakkavor Desserts Leicester Limited. This implicit sub-lease ended when the trade and assets of Bakkavor Desserts Leicester Limited were Hived Across to the Company.

To recognise this implicit sub-lease, the following restatement has been made to the period ended 28 December 2019:

Financial Statement Line Item	As reported	Restatement	Restated
	£ 000	£ 000	£ 000
Property, plant and equipment	400,601	5,793	406,394
Creditors: amounts falling due within one year	(457,132)	(224)	(457,356)
Creditors: amounts falling due after more than one year	(66,832)	(5,569)	(74,401)

There is no impact to reported equity.

Summary of disclosure exemptions

As permitted by Financial Reporting Standard 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash-flow statement, standards not yet effective, impairment of assets, share based payments, presentation of a third balance sheet for retrospective restatements and related party transactions. Where relevant, equivalent disclosures have been given in the group Financial Statements of Bakkavor Group plc. The group Financial Statements of Bakkavor Group plc are available to the public and can be obtained as set out in the controlling party note.

Going concern

The Directors have reviewed the historical trading performance of the Company and the forecasts through to December 2022, to assess the level of finance required by the Company. The going concern basis has been adopted in preparing these financial statements. Reference should be made to the Directors' Report for the Directors' 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 29 December 2019 to 26 December 2020 (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.

Bakkavor Foods Limited

Notes to the Financial Statements for the Period from 29 December 2019 to 26 December 2020 (continued)

2 Accounting policies (continued)

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.

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

Foreign currency transactions and balances

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into the respective functional currency of the entity at the rates prevailing on the reporting period date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the initial transaction dates. Non-monetary items measured in terms of historical cost in a foreign currency are not retranslated.

Research and development

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

Exceptional items

Exceptional items are those that, in management's judgement, should be disclosed by virtue of their nature or amount. Exceptional items will typically include 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 and start-up losses 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 represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the 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.

Tax returns are prepared to adhere to tax rules and regulations and with all transactions being fully disclosed to the tax authorities. However, the complex nature of tax sometimes means that the legislation is open to interpretation. In such cases, judgement is required to quantify the tax liability to be reflected in the Financial Statements. If there is a reasonable possibility that tax authorities may take a different view from the position taken in the filed returns then this will be reflected in the Financial Statements in the form of a tax provision. In such cases, this provision will represent the full amount of any potential liability until the matter is agreed with the tax authorities.

Bakkavor Foods Limited

Notes to the Financial Statements for the Period from 29 December 2019 to 26 December 2020 (continued)

2 Accounting policies (continued)

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the Financial Statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill, or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The carrying amount of deferred tax assets is reviewed at each Balance Sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities, and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Where current and deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

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

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 29 December 2019 to 26 December 2020 (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 method and rate
<i>Buildings</i>	<i>maximum period of 50 years</i>
<i>Plant and Machinery</i>	<i>1 to 20 years</i>
<i>Fixtures and equipment</i>	<i>3 to 5 years</i>

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

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

Goodwill

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

Goodwill is not subject to amortisation but is tested for impairment. For the purpose of impairment testing, goodwill is allocated to each of the cash-generating units (CGUs) or groups of CGUs expected to benefit from the synergies of the combination. CGUs or groups of CGUs to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired.

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 over its useful economic life in paragraph 22 of Schedule 1 to the Regulations.

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.

Bakkavor Foods Limited

Notes to the Financial Statements for the Period from 29 December 2019 to 26 December 2020 (continued)

2 Accounting policies (continued)

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 profit or loss or in OCI.

Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ('FVPL'), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Subsequent measurement depends on the cash flow characteristics of the asset. There are three measurement categories into which the 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 profit and loss account.
- **FVOCI:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cashflows 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.

Bakkavor Foods Limited

Notes to the Financial Statements for the Period from 29 December 2019 to 26 December 2020 (continued)

2 Accounting policies (continued)

Derivatives are initially recognised at fair value on the date that a derivative contract is entered into, and they are subsequently remeasured to their fair value at the end of each reporting period. The Company does not apply hedge accounting, and therefore changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the profit and loss account and included in other gains and (losses).

Impairment of financial assets

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 26 December 2020 or 28 December 2019 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.

Financial liabilities

Financial liabilities held by the Company are classified as other financial liabilities at amortised cost and derivatives at FVPL.

Loans and receivables

Trade receivables and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Bakkavor Foods Limited

Notes to the Financial Statements for the Period from 29 December 2019 to 26 December 2020 (continued)

2 Accounting policies (continued)

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 calculating the amortised cost of a debt instrument and of allocating finance costs over the relevant period.

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

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 and interest 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. Changes in the fair value of derivative financial instruments are recognised in the income statement as they arise.

Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Company will comply with all attached conditions.

Bakkavor Foods Limited

Notes to the Financial Statements for the Period from 29 December 2019 to 26 December 2020 (continued)

2 Accounting policies (continued)

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 profit or loss.

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 entity.

Present obligations arising from onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Company has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

Provisions are measured at the 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.

Bakkavor Foods Limited

Notes to the Financial Statements for the Period from 29 December 2019 to 26 December 2020 (continued)

2 Accounting policies (continued)

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.

Bakkavor Foods Limited

Notes to the Financial Statements for the Period from 29 December 2019 to 26 December 2020 (continued)

2 Accounting policies (continued)

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.

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 Group 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.

Bakkavor Foods Limited

Notes to the Financial Statements for the Period from 29 December 2019 to 26 December 2020 (continued)

3 Critical accounting judgements and key sources of estimation uncertainty

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

Critical judgements in applying the Company's accounting policies

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 9.

Key sources of estimation uncertainty

Pensions

The Company maintains a defined benefit group pension plan for which it has recorded a pension asset/liability. The pension asset/liability is based on an actuarial valuation that requires a number of assumptions including discount rate, mortality rates and actual return on plan assets that may necessitate material adjustments to this asset/liability in the future. The assumptions used by the Company are the best estimates based on historical trends and the composition of the work force. This is disclosed further in Note 28.

Customer deductions

Management is required to make estimates in determining the amount and timing of recognition of customer deductions due in respect of sales to its customers. In determining the amount of customer deductions due for volume-related allowances in any period, management estimate whether customers will meet the purchase target volumes by the end of the arrangement, based on historical and forecast performance, and recognises this cost as a deduction from revenue over the period of the relevant arrangement. Where there are ongoing negotiations with customers over the level of deduction, the Company makes its best estimate of the outcome based on a range of factors, including the latest negotiation position, past history and economic factors such as price inflation or deflation. As there is some judgement involved in the estimation of accruals, the Company has conducted a sensitivity analysis and a movement equivalent to 0.5% (2019: 0.5%) of revenue would result in a credit or debit to the Profit and Loss account of £7,587,000 (2019: £8,021,000).

Bakkavor Foods Limited

Notes to the Financial Statements for the Period from 29 December 2019 to 26 December 2020 (continued)

4 Turnover

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

	2020 £ 000	2019 £ 000
Sale of goods to United Kingdom customers	1,517,348	1,601,017
Sale of goods to other United Kingdom group companies	96	126
	<u>1,517,444</u>	<u>1,601,143</u>

Major customers

In 2020 the Company's four largest customers accounted for 86.0% (2019: 85.6%) 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:

	2020	2019
Customer A	40.8%	37.3%
Customer B	22.1%	25.4%
Customer C	13.2%	12.8%
Customer D	9.9%	10.1%

5 Operating profit

Arrived at after charging/(crediting)

	Note	2020 £ 000	2019 £ 000
Depreciation of owned assets		42,196	35,580
Depreciation of leased assets		14,148	15,708
Cost of stock		678,002	736,346
Write down of stocks recognised as an expense/(credit)		3,810	(65)
Research and development		5,904	5,699
Exceptional items		21,221	12,877
Loss on disposal of PPE		310	33
Foreign exchange losses/(gains)		645	(258)
Staff costs	10	<u>440,647</u>	<u>446,443</u>

6 Other interest receivable and similar income

	2020 £ 000	2019 £ 000
Interest receivable from group companies	<u>4,830</u>	<u>5,004</u>

Bakkavor Foods Limited

Notes to the Financial Statements for the Period from 29 December 2019 to 26 December 2020 (continued)

7 Interest payable and similar expenses

	2020 £ 000	2019 £ 000
Interest on borrowings	390	84
Amortisation of refinancing costs	26	10
Interest on lease liabilities	2,555	2,770
Unwinding of discount on provisions	142	207
Interest payable to group companies	3,743	3,230
	<u>6,856</u>	<u>6,301</u>

Interest on borrowings is presented net of amounts capitalised in respect of qualifying assets of £nil (2019: £1,094,000).

8 Other gains and (losses)

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

	2020 £ 000	2019 £ 000
Change in the fair value of derivative financial instruments	3,373	(7,208)
Foreign currency (losses)/gains	(645)	258
Waiver of amounts due from related parties	-	(4,129)
	<u>2,728</u>	<u>(11,079)</u>

9 Exceptional items

	2020 £ 000	2019 £ 000
Disruption costs	-	3,760
Restructuring costs, impairments and onerous lease provision	21,221	9,117
	<u>21,221</u>	<u>12,877</u>

The Company incurred £21,221,000 of costs presented as exceptional items in 2020. The closure of two salads factories in Alresford and Spalding led to cash restructuring charges of £4,838,000, with a further £8,160,000 impairment charge in respect of their tangible fixed assets. Following a review of assets, the Company also incurred a further impairment charge of £8,553,000 in the UK business for assets that are now either redundant or related to products that have been discontinued in the year. Also during 2020, the Company transferred a legal provision of £330,000 to fellow Group subsidiary Bakkavor USA Inc, an exceptional credit of £330,000 has been recognised in the Company for this provision release.

Bakkavor Foods Limited

Notes to the Financial Statements for the Period from 29 December 2019 to 26 December 2020 (continued)

9 Exceptional items (continued)

In 2019, the Company incurred exceptional costs of £9,377,000 of which £3,760,000 related to disruption costs as the business prepared for the launch of significant new products later in Q3 2019. In addition, the Company incurred £4,220,000 of costs related to the closure of a meals business in Lincolnshire. The remaining £1,397,000 is primarily for redundancy costs following changes to the Company's commercial and marketing structure.

In addition in 2019, the Company has impaired £3,500,000 of property, plant and equipment. The impairment was of redundant assets arising as a result of the closure of a meals business in Lincolnshire. The impairment was determined by comparing the carrying values of the assets with their recoverable amount i.e. the higher of the asset's fair value less costs of disposal and its value in use. The recoverable amount in the case of each asset was its fair value less costs of disposal which amount to £nil.

10 Staff costs

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

	Note	2020 £ 000	2019 £ 000
Wages and salaries		385,071	394,396
Social security costs		43,273	40,289
Other pension costs	28	12,303	11,758
		<u>440,647</u>	<u>446,443</u>

During the year the Company furloughed a number of its employees across its sites for varying periods of time, under the UK Government's Coronavirus Job Retention Scheme. Amounts received by the Company constitute a government grant and, as of 26 December 2020, all conditions of the scheme have been met. As such, the Company has recognised £12,800,000 as a reduction to staff costs, in respect of this grant.

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

	2020 No.	2019 No.
Production	13,346	14,262
Management and administration	1,826	1,697
Sales and distribution	730	718
	<u>15,902</u>	<u>16,677</u>

11 Directors' remuneration

In respect of the highest paid director:

	2020 £ 000	2019 £ 000
Remuneration	<u>694</u>	<u>987</u>

Bakkavor Foods Limited

Notes to the Financial Statements for the Period from 29 December 2019 to 26 December 2020 (continued)

12 Auditors' remuneration

	2020	2019
	£ 000	£ 000
Audit of the financial statements	<u>200</u>	<u>200</u>

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

In addition to the entity audit fee of £0.2m, audit fees relating to Bakkavor Group plc and other Bakkavor Group companies of £0.6m were incurred by Bakkavor Foods Limited 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 because the consolidated Financial Statements of the Company's parent Bakkavor Group plc are required to disclose non-audit services on a consolidated basis.

13 Tax on profit

Tax charged in the profit and loss account

	2020	2019
	£ 000	£ 000
Current taxation		
Corporation tax - Current year	11,378	12,793
Corporation tax - Prior year	(1,406)	(36)
Group loss relief - Current year	<u>1,928</u>	<u>2,642</u>
	<u>11,900</u>	<u>15,399</u>
Deferred taxation		
Deferred tax - Current year	(768)	(254)
Deferred tax - Prior year	<u>2,025</u>	<u>1,052</u>
Total deferred taxation	<u>1,257</u>	<u>798</u>
Tax charge in the profit and loss account	<u>13,157</u>	<u>16,197</u>

Bakkavor Foods Limited

Notes to the Financial Statements for the Period from 29 December 2019 to 26 December 2020 (continued)

13 Tax on profit (continued)

Corporation tax is calculated at 19% (2019 - 19%) of the estimated result for the period. The tax for the period is reconciled to the profit and loss account as follows:

	2020	2019
	£ 000	£ 000
Profit before tax	<u>59,815</u>	<u>77,055</u>
Corporation tax	11,365	14,640
Effect of income exempt from taxation	(134)	(222)
Effect of expenses not deductible in determining taxable profit	1,354	2,085
Unrecognised deferred tax assets now utilised	-	(1,023)
Group loss relief free of charge	(47)	(17)
Deferred tax credit relating to changes in tax rates or laws	-	(282)
Current tax prior year adjustment	(1,406)	(36)
Deferred tax prior year adjustment	<u>2,025</u>	<u>1,052</u>
Total tax charge	<u>13,157</u>	<u>16,197</u>

The Spring Budget 2021 announced that the UK corporation tax rate will increase to 25% from 1 April 2023. The deferred tax assets and liabilities of the Company have been calculated at 19% as this rate has been substantively enacted at the Balance Sheet date.

Bakkavor Foods Limited

Notes to the Financial Statements for the Period from 29 December 2019 to 26 December 2020 (continued)

13 Tax on profit (continued)

Deferred tax

Deferred tax assets and liabilities

Deferred tax movement during the prior period:

	At 30 December 2018 £ 000	Recognised in income £ 000	Transfer to/from group companies £ 000	Recognised in OCI* £ 000	At 28 December 2019 £ 000
Accelerated tax depreciation	(12,038)	(1,408)	-	-	(13,446)
Fair value movements on financial instruments	(367)	1,031	-	-	664
Other items	607	(427)	-	-	180
Pension benefit obligations	85	(320)	-	(1,414)	(1,649)
Share-based payment	-	326	(326)	-	-
Net tax assets/(liabilities)	(11,713)	(798)	(326)	(1,414)	(14,251)

Deferred tax movement during the period:

	At 29 December 2019 £ 000	Recognised in income £ 000	Transfer to/from group companies £ 000	Recognised in OCI* £ 000	At 26 December 2020 £ 000
Accelerated tax depreciation	(13,446)	128	(89)	-	(13,407)
Fair value movements on financial instruments	664	(611)	-	-	53
Other items	180	77	-	-	257
Pension benefit obligations	(1,649)	(384)	-	(95)	(2,128)
Share-based payment	-	(467)	467	-	-
Net tax assets/(liabilities)	(14,251)	(1,257)	378	(95)	(15,225)

*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.

Group relief payments

Where the Company receives tax losses from another member of Bakkavor group, the Company pays an amount of compensation to the respective group member ('group relief payments'). Such payments are treated as if they were income taxes to the extent that the payment is for an amount of tax that would otherwise be paid by the Company. If the payment is more, then the excess is treated as a distribution to the surrendering group companies. In 2019 and 2020, the group relief payments were limited to the amount of tax that would otherwise be paid by the Company.

Bakkavor Foods Limited

Notes to the Financial Statements for the Period from 29 December 2019 to 26 December 2020 (continued)

14 Goodwill and other intangible assets

	Goodwill £ 000	Other intangible assets £ 000	Total £ 000
Cost or valuation			
At 29 December 2019	280,244	42,138	322,382
At 26 December 2020	280,244	42,138	322,382
Accumulated amortisation			
At 29 December 2019	39,938	42,087	82,025
At 26 December 2020	39,938	42,087	82,025
Carrying amount			
At 26 December 2020	240,306	51	240,357
At 28 December 2019	240,306	51	240,357

15 Property, plant and equipment

	Land and buildings £ 000	Plant and machinery £ 000	Fixtures and equipment £ 000	Total £ 000
Cost				
At 29 December 2019 (restated)	233,437	580,652	89,830	903,919
Additions	11,333	36,008	10,632	57,973
Acquired through business combinations	4,066	7,165	14	11,245
Disposals	(1,724)	(10,708)	(3,381)	(15,813)
At 26 December 2020	247,112	613,117	97,095	957,324
Accumulated depreciation and impairment				
At 29 December 2019 (restated)	82,075	360,861	54,589	497,525
Charge for the period	11,166	34,984	10,194	56,344
Eliminated on disposal	(1,715)	(10,395)	(3,360)	(15,470)
Impairment	3,851	14,924	231	19,006
At 26 December 2020	95,377	400,374	61,654	557,405
Carrying amount				
At 26 December 2020	151,735	212,743	35,441	399,919
At 28 December 2019	151,362	219,791	35,241	406,394

Bakkavor Foods Limited

Notes to the Financial Statements for the Period from 29 December 2019 to 26 December 2020 (continued)

15 Property, plant and equipment (continued)

Impairment

During 2020, Bakkavor Foods Limited has impaired £19,006,000 of property, plant and equipment (2019 - £3,500,000). The closure of two salads factories in Alresford and Spalding resulted in an £8,160,000 impairment charge in respect of their tangible fixed assets. Following a review of assets, the Company also incurred a further impairment charge of £8,553,000 in the UK business for assets that are now either redundant or related to products that have been discontinued in the year. The impairment was determined by comparing the carrying values of the assets with their recoverable amount i.e. the higher of the asset's fair value less costs of disposal and its value in use. Further, a £2,293,000 impairment charge was made to Land and Buildings which arose from fully writing down the right-of-use assets held by the Company for a division which has ceased trading. The recoverable amount in the case of each asset was its fair value less costs of disposal which amount to £nil.

Amounts held under lease arrangements

The carrying value of the Company's plant and machinery includes an amount of £3,065,000 (2019: £3,563,000) in respect of assets held under leases previously recognised as finance leases before the introduction of IFRS 16.

The carrying value of the Group's land and buildings and plant and machinery includes an amount of £77,639,000 (2019: £82,924,000) 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 £21,615,000 (2019: £780,000) 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:

	2020	2019
	£ 000	£ 000
Property, plant and equipment	<u>1,853</u>	<u>8,681</u>

Bakkavor Foods Limited

Notes to the Financial Statements for the Period from 29 December 2019 to 26 December 2020 (continued)

16 Investments in subsidiaries

	£ 000
Cost or valuation	
At 29 December 2018, 28 December 2019 and 26 December 2020	<u>34,149</u>
Impairment	
At 29 December 2018, 28 December 2019 and 26 December 2020	<u>25,535</u>
Carrying amount	
At 26 December 2020	<u>8,614</u>
At 28 December 2019	<u>8,614</u>

Details of undertakings

Details of the investments in which the Company held share capital as at 26 December 2020 were as follows:

Name of subsidiary	Principal activity	Registered office	Proportion of voting rights and shares held	
			2020	2019
Bakkavor Central Finance Limited*	Customer invoicing and financing of receivables	West Marsh Road, Spalding, Lincolnshire, PE11 2BB. United Kingdom	100%	100%
Bakkavor Iberica S.L.U*	Distribution	Calle Cartagena 57, 1 D Torre Pacheco, Murcia CP 30700. Spain	100%	100%
Butterdean Products Limited*	Dormant non-trading company	Fitzroy Place, 5th Floor, 8 Mortimer Street, London, England, W1T 3JJ. United Kingdom	100%	100%
BV Restaurant Group Limited*	Production and distribution of fresh prepared foods	Fitzroy Place, 5th Floor, 8 Mortimer Street, London, England, W1T 3JJ. United Kingdom	100%	100%
Bakkavor Estates Limited *	Property management	West Marsh Road, Spalding, Lincolnshire, England, PE11 2BB. United Kingdom	100%	100%

Bakkavor Foods Limited

Notes to the Financial Statements for the Period from 29 December 2019 to 26 December 2020 (continued)

16 Investments in subsidiaries (continued)

Name of subsidiary	Principal activity	Registered office	Proportion of voting rights and shares held	
			2020	2019
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%
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%
Bakkavor (Acquisitions) 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 Overseas Holdings 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 Foods Limited

Notes to the Financial Statements for the Period from 29 December 2019 to 26 December 2020 (continued)

16 Investments in subsidiaries (continued)

Name of subsidiary	Principal activity	Registered office	Proportion of voting rights and shares held	
			2020	2019
Bakkavor Fresh Cook Limited	Preparation and marketing of fresh prepared foods	Fitzroy Place, 5th Floor, 8 Mortimer Street, London, England, W1T 3JJ. United Kingdom	100%	100%
Bakkavor Brothers Limited	Dormant non-trading company	Fitzroy Place, 5th Floor, 8 Mortimer Street, London, England, W1T 3JJ. United Kingdom	100%	100%
Hitchen Foods Limited	Dormant non-trading company	Fitzroy Place, 5th Floor, 8 Mortimer Street, London, England, W1T 3JJ. United Kingdom	100%	100%
Laurens Patisseries Limited	Dormant non-trading company	Fitzroy Place, 5th Floor, 8 Mortimer Street, London, England, W1T 3JJ. United Kingdom	100%	100%
Kent Salads Limited	Dormant non-trading company	Fitzroy Place, 5th Floor, 8 Mortimer Street, London, England, W1T 3JJ. United Kingdom	100%	100%
Notsallow 256 Limited	Dormant non-trading company	Fitzroy Place, 5th Floor, 8 Mortimer Street, London, England, W1T 3JJ. United Kingdom	100%	100%
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 Foods Limited

Notes to the Financial Statements for the Period from 29 December 2019 to 26 December 2020 (continued)

16 Investments in subsidiaries (continued)

Name of subsidiary	Principal activity	Registered office	Proportion of voting rights and shares held	
			2020	2019
BV Foodservice Limited	Dormant non-trading company	Fitzroy Place, 5th Floor, 8 Mortimer Street, London, England, W1T 3JJ. United Kingdom	100%	100%
Haydens Bakery 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%	0%

* indicates direct investment of Bakkavor Foods Limited

17 Stocks

	2020 £ 000	2019 £ 000
Raw materials and packaging	46,996	46,521
Work in progress	1,995	1,781
Finished goods	6,325	5,312
	<u>55,316</u>	<u>53,614</u>

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

Bakkavor Foods Limited

Notes to the Financial Statements for the Period from 29 December 2019 to 26 December 2020 (continued)

18 Debtors

	2020	2019
	£ 000	£ 000
Trade debtors	94,578	77,284
Expected credit loss	(1,343)	(1,204)
Net trade debtors	93,235	76,080
Amounts due from group companies	601,143	527,762
Other debtors	12,574	13,104
Prepayments	6,345	8,755
Total current trade and other debtors	713,297	625,701

Amounts due from group companies are unsecured, have interest charged of 0% - 5.35% 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 26 December 2020 £106 million was drawn under factoring facilities (2019: £134 million) representing cash collected before it was contractually due from the customer. As at 26 December 2020, the Company's amounts receivable from trade customers includes £56.6 million (2019: £49.4 million), which could be factored under the non-recourse trade receivable factoring arrangement.

19 Derivative financial instruments

	2020	2019
	£ 000	£ 000
Non-current financial assets		
Derivative financial instruments	59	-
Current financial assets		
Derivative financial instruments	643	-
Non-current financial liabilities		
Derivative financial instruments	(37)	(201)
Current financial liabilities		
Derivative financial instruments	(943)	(3,290)

Bakkavor Foods Limited

Notes to the Financial Statements for the Period from 29 December 2019 to 26 December 2020 (continued)

19 Derivative financial instruments (continued)

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 to minimise the exposure generated. Financial assets/liabilities are stated at fair value, with any resultant gain or loss recognised in the profit and loss account. At 26 December 2020, the outstanding contracts all mature within 16 months (2019: 16 months) of the period end. The Company is committed to buy €98,800,000 and \$20,444,000 for a fixed sterling amount.

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.

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.

20 Creditors: Amounts falling due within one year

	2020	Restated 2019
	£ 000	£ 000
Trade creditors	206,835	210,230
Amounts due to group companies	116,724	95,861
Deferred income	-	770
Other creditors	16,396	20,557
Corporate tax payable	20,978	10,815
Lease liabilities	13,556	13,877
Derivative financial instruments	943	3,290
Accruals	98,909	101,876
Other borrowings	2,345	80
	<u>476,686</u>	<u>457,356</u>

Bakkavor Foods Limited

Notes to the Financial Statements for the Period from 29 December 2019 to 26 December 2020 (continued)

20 Creditors: Amounts falling due within one year (continued)

Amounts due to group companies are unsecured, have interest charged between 2.7% and 6.25% 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 26 December 2020, trade creditors amounting to £27,944,000 (2019: £18,651,000) 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.

21 Loans and borrowings

	2020 £ 000	Restated 2019 £ 000
Non-current loans and borrowings		
Obligations held under leases	70,556	72,803
Other borrowings	21,694	761
	<u>92,250</u>	<u>73,564</u>

	2020 £ 000	Restated 2019 £ 000
Current loans and borrowings		
Obligations held under leases	13,556	13,877
Other borrowings	2,345	80
	<u>15,901</u>	<u>13,957</u>

The loans and borrowings classified as financial instruments are disclosed in the financial instruments note.

The company's exposure to market and liquidity risk; including maturity analysis, in respect of loans and borrowings is disclosed in the financial risk management and impairment note.

Other borrowings relate to an Asset Finance Facility, which is a £25.0 million facility and could be drawn against up to August 2020, of which the Company drew down £24,883,000. 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 the 26 December 2020 is 2.41% (2019: 2.74%). The interest rate is fixed at the prevailing rate on commencement of the loan tranche.

Bakkavor Foods Limited

Notes to the Financial Statements for the Period from 29 December 2019 to 26 December 2020 (continued)

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.

Analysis of property, plant and equipment relating to leases

The Company has split the net book value of property, plant and equipment relating to leases between amounts previously recognised as finance leases under IAS 17 and amounts recognised as right-of-use assets under IFRS 16. This allows management to review performance excluding IFRS 16, as set out in Note 32, Alternative Performance Measures.

	2020 £ 000	Restated 2019 £ 000
Net book value of leased property, plant and equipment excluding right-of-use assets	3,065	3,563
Net book value of right-of-use assets	77,639	82,924
	<u>80,704</u>	<u>86,487</u>

Net book value of right-of-use assets

	Land and buildings £ 000	Plant and machinery £ 000	Total £ 000
Balance at 29 December 2019 (restated)	80,516	2,408	82,924
Additions	9,107	2,049	11,156
Depreciation charge	(12,561)	(1,587)	(14,148)
Impairment	(2,293)	-	(2,293)
At 26 December 2020	<u>74,769</u>	<u>2,870</u>	<u>77,639</u>

Lease liabilities

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

	2020 £ 000	Restated 2019 £ 000
Current liabilities	13,556	13,877
Non-current liabilities	70,556	72,803
	<u>84,112</u>	<u>86,680</u>

Bakkavor Foods Limited

Notes to the Financial Statements for the Period from 29 December 2019 to 26 December 2020 (continued)

22 Leases (continued)

The weighted average lease term outstanding is 14.2 years (2019: 13.4 years). For 2020, the weighted average incremental borrowing rate was 3.10% (2019: 3.11%). 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.

Amounts recognised in the profit and loss account

	2020 £ 000	2019 £ 000
Interest on lease liabilities	2,555	2,770
Expenses relating to low-value leases	1,284	1,146
Expenses relating to short-term leases	557	564
	<u>4,396</u>	<u>4,480</u>

Cash payments made for leases

	2020 £ 000	2019 £ 000
Total cash outflow for leases	<u>16,308</u>	<u>18,043</u>

23 Creditors: Amounts falling due after more than one year

	2020 £ 000	Restated 2019 £ 000
Deferred income	-	636
Lease liabilities	70,556	72,803
Derivative financial instruments	37	201
Other borrowings	21,694	761
	<u>92,287</u>	<u>74,401</u>

Bakkavor Foods Limited

Notes to the Financial Statements for the Period from 29 December 2019 to 26 December 2020 (continued)

24 Acquisitions

Bakkavor Desserts Leicester Limited

On 22 December 2020, the Company purchased the trade and assets of Bakkavor Desserts Leicester Limited at net book value as part of a Hive Up transaction.

The purchase price paid was paid by crediting £1,722,000 to the intercompany loan between the Company and Bakkavor Desserts Limited and the net identifiable assets acquired were as follows;

	£ 000
Property, plant and equipment	11,245
Stocks	1,844
Trade and other receivables	7,162
Cash	6,040
Trade and other payables	(24,480)
Deferred tax liabilities	(89)
Net identifiable assets acquired	<u><u>1,722</u></u>

The results of the acquired division since 22 December 2020 have contributed £6,750,000 of revenue and a profit of £245,000 for the period.

Bakkavor Foods Limited

Notes to the Financial Statements for the Period from 29 December 2019 to 26 December 2020 (continued)

25 Other provisions

	Legal provisions £ 000	Onerous contracts £ 000	Dilapidation provisions £ 000	Total £ 000
At 30 December 2018	-	777	15,185	15,962
Reversed by IFRS 16	-	(137)	-	(137)
Reclassified from accruals	1,774	-	-	1,774
Additional provisions	1,106	680	-	1,786
Acquired through business combinations	-	-	628	628
Provisions used	(193)	(934)	(15)	(1,142)
Release of provision	(936)	(21)	(108)	(1,065)
Unwinding of discount	-	10	197	207
At 28 December 2019	<u>1,751</u>	<u>375</u>	<u>15,887</u>	<u>18,013</u>
Non-current liabilities	-	-	12,662	12,662
Current liabilities	<u>1,751</u>	<u>375</u>	<u>3,225</u>	<u>5,351</u>

	Legal and other provisions £ 000	Onerous contracts £ 000	Restructuring £ 000	Dilapidation provisions £ 000	Total £ 000
At 29 December 2019	1,751	375	-	15,887	18,013
Additional provisions	5,072	639	4,841	2,825	13,377
Provisions used	(244)	(299)	(4,067)	(1,440)	(6,050)
Release of provision	(513)	-	-	(1,536)	(2,049)
Unwinding of discount	-	4	-	137	141
At 26 December 2020	<u>6,066</u>	<u>719</u>	<u>774</u>	<u>15,873</u>	<u>23,432</u>
Non-current liabilities	-	599	-	12,532	13,131
Current liabilities	<u>6,066</u>	<u>120</u>	<u>774</u>	<u>3,341</u>	<u>10,301</u>

Bakkavor Foods Limited

Notes to the Financial Statements for the Period from 29 December 2019 to 26 December 2020 (continued)

25 Other provisions (continued)

Onerous contracts provisions brought forward from the end of 2019 relate to the Company's leased vacant properties. During the year an additional onerous contract provision of £639,000 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 10 to 19 years.

Dilapidation provisions relate to estimated obligations under various property leases to ensure that, at the end of the leases, the buildings are in the condition agreed with the landlords. The provisions will be utilised at the end of the individual lease terms to which they relate, which range from 1 to 30 years

The legal and other provisions, which are expected to be settled within 12 months and have increased by £5,072,000 in the year, 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.

A restructuring provisions of £4,841,000 has been recognised in relation to site closures in the year and represents the total expected costs for the closure of these businesses. The majority of these provisions have been utilised within the year.

26 Called up share capital

Allotted, called up and fully paid shares

	26 December 2020		28 December 2019	
	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>

27 Reserves

Share premium

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

Bakkavor Foods Limited

Notes to the Financial Statements for the Period from 29 December 2019 to 26 December 2020 (continued)

28 Pension and other schemes

The Company operates a number of pension schemes in the UK. These schemes are either trust or contract based and have been set up in accordance with appropriate legislation. The assets of each of the pension schemes are held separately from the assets of the Company.

Defined contribution pension scheme

The defined contribution scheme is open to all UK employees joining the Company (full or part time). The total cost charged to income of £10,803,000 (2019 - £10,858,000) represents contributions payable to these schemes by the Company at rates specified in the rules of the plans. At 26 December 2020 £1,976,000 was owing for the defined contribution scheme (2019 - £2,305,000).

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 26 December 2020 by a qualified independent actuary with Willis Towers Watson. Under IAS 19 valuation principles a surplus of £11,151,000 (2019 - surplus of £9,651,000) has been recognised in the Balance Sheet.

A charge of £1,500,000 (2019 - £900,000) has been recognised in the profit and loss account during the period.

The pension plan shares risk with other Bakkavor 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 33 within the Bakkavor Group plc Annual Report 2020.

29 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 (2019 - £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 £512.5 million (2019 - £492.5 million).

As at 26 December 2020, the Group had purchase commitments for the next 12 months to guarantee supply and price of raw materials of £136.4 million (2019: £126.6 million).

30 Non adjusting events after the financial period

There are no significant events after the balance sheet date to report.

Bakkavor Foods Limited

Notes to the Financial Statements for the Period from 29 December 2019 to 26 December 2020 (continued)

31 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 Bakkavor Group plc's registered office, Fitzroy Place, 5th Floor, 8 Mortimer Street, London, W1T 3JJ, United Kingdom.

32 Alternative performance measures

Adjusted EBITDA and Adjusted operating profit

The Company manages the performance of its business through the use of 'Adjusted EBITDA' and 'Adjusted operating profit', as these measures exclude the impact of items that hinder comparison of profitability year-on-year. EBITDA is generally defined as operating profit/(loss) before depreciation and amortisation. In calculating Adjusted EBITDA and Adjusted operating profit, we exclude restructuring costs, asset impairments, and those additional charges or credits that are considered significant or one-off in nature.

The following table sets out a reconciliation from the Company's Operating profit to Adjusted EBITDA:

	2020	2019
	£ 000	£ 000
Operating profit	59,113	89,431
Depreciation	56,344	51,287
EBITDA	115,457	140,718
Exceptional items	21,221	12,877
Loss on disposal of property, plant and equipment	310	33
Share scheme charges	1,183	1,918
Adjusted EBITDA post IFRS 16	138,171	155,546
Less IFRS 16 impact	(15,294)	(15,865)
Adjusted EBITDA pre IFRS 16	122,877	139,681

Bakkavor Foods Limited

Notes to the Financial Statements for the Period from 29 December 2019 to 26 December 2020 (continued)

32 Alternative performance measures (continued)

The following table provides a reconciliation from operating profit to Adjusted operating profit:

	2020	2019
	£ 000	£ 000
Operating profit	59,113	89,431
Exceptional items	21,221	12,877
Adjusted operating profit	80,334	102,308