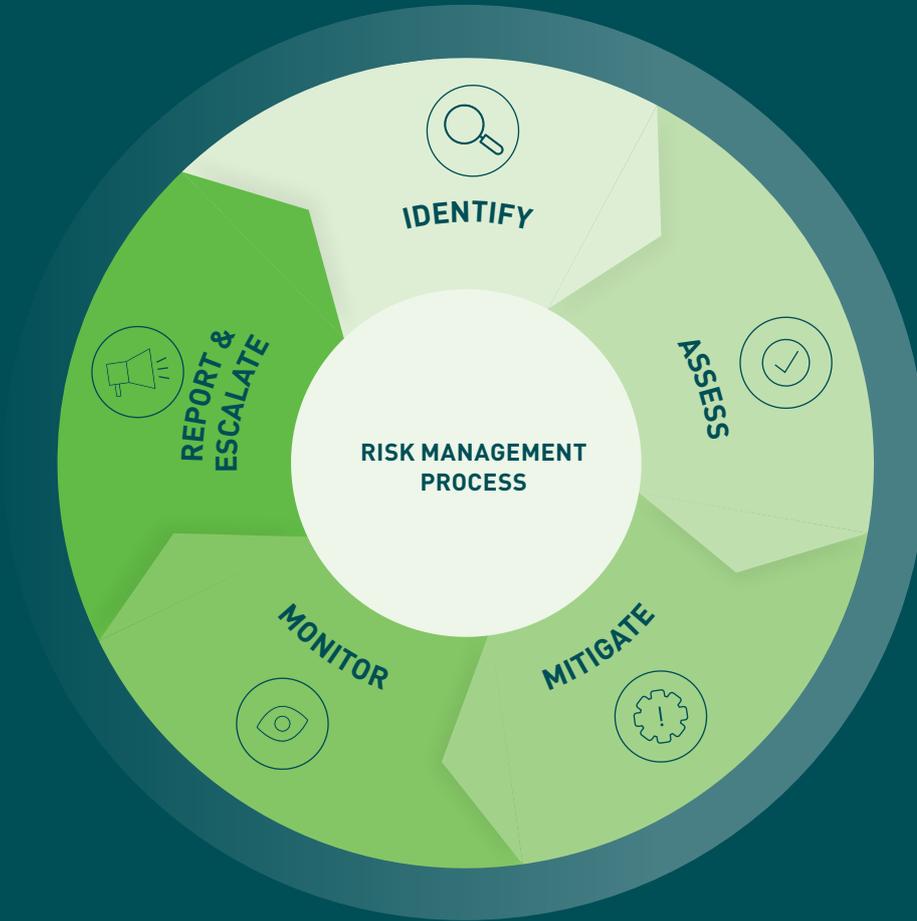


RISK MANAGEMENT AND RISKS

OUR RISK MANAGEMENT PROCESS AND FRAMEWORK



IDENTIFY
key risks



ASSESS
the potential impact and likelihood



MITIGATE
using appropriate controls and other management actions



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



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

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

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

Our approach

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

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

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

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

Emerging risks

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

Risk appetite

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

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

RISK MANAGEMENT AND RISKS CONTINUED

OUR RISK MANAGEMENT PROCESS AND FRAMEWORK

TOP-DOWN APPROACH

Identification of the Group's principal risks

GROUP BOARD

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

AUDIT AND RISK COMMITTEE

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

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

MANAGEMENT BOARD

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

CORPORATE RISK COMMITTEE

UK RISK COMMITTEE

US RISK COMMITTEE

CHINA RISK COMMITTEE

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

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

SENIOR EXECUTIVES AND OTHER MANAGEMENT

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

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

BOTTOM-UP APPROACH

Identification of operational risks, including food safety, health and safety and property risks.

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

Internal Audit

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

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

External financial audit

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

Other external parties

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

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

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

Risk assurance

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

Internal control system

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

Examples of the Bakkavor internal control system include:

- **Health and safety** – The Group promotes a proactive safety and accident awareness culture and has in place health and safety teams that define standards and monitor compliance with the Group's policies for ensuring workplace safety.
- **Food safety** – The Group aims to deliver food products with the highest levels of safety and integrity. Bakkavor applies food safety procedures when designing and managing its sites, including rigorous testing and Hazard Analysis Critical Control Point management systems.
- **Food quality** – The Group maintains strict controls regarding the authenticity, quality and labelling of the products it manufactures and supplies. Bakkavor is subject to regular inspection by food safety and other authorities for compliance with applicable food laws.
- **COVID-19** – Our technical and operational teams introduced new procedures and controls at each of our sites in response to the COVID-19 pandemic to help ensure the health and safety of our colleagues, whilst continuing to operate as an important supplier of fresh prepared food to our grocery retail and foodservice customers.
- **IT systems** – Bakkavor has an IT risk and security development programme in place and during the year has made further investment in its cyber defences, including the addition of multifactorial security and the segmentation of our UK local area networks.
- **Treasury** – The Group has a Treasury Policy in place, the main objectives of which are to ensure that appropriate capital resources are available for the maintenance and development of the Group's businesses, and that the financial risk relating to the Group's currency, interest rate and counterparty credit exposure is understood, measured, and managed appropriately.
- **Financial reporting** – The Group has a robust Business Control Environment Policy in place which covers key financial controls which apply to all business units. Financial reporting is reviewed by finance teams at business unit, sector, region and Group level.

RISK MANAGEMENT AND RISKS CONTINUED

2021 business context

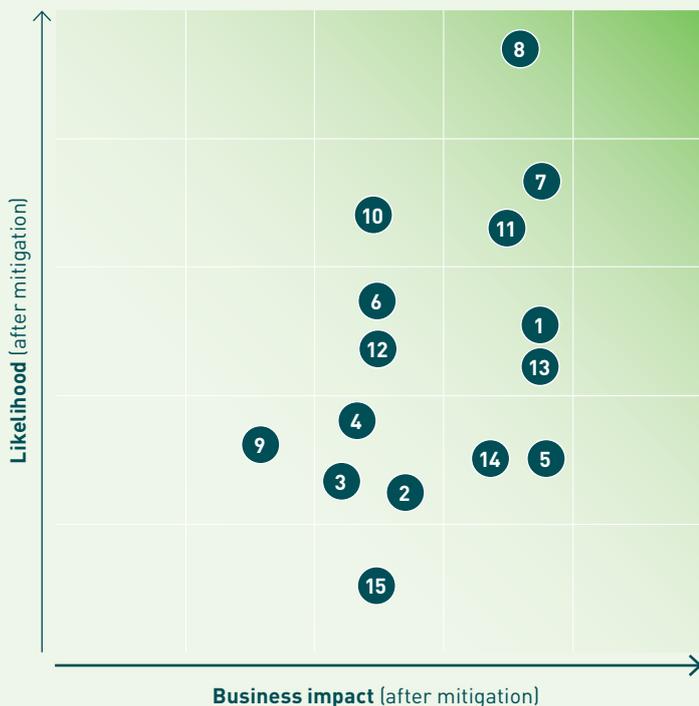
The Group delivered a strong performance in 2021 despite facing a number of challenges. Whilst the year started with the acute effects of the government imposed restrictions due to the COVID-19 pandemic, these lessened through the period leading to an improvement in consumer confidence and a strong rebound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

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

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

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

RISK ASSESSMENT MAP



Principal risks 2021

Risk trend

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

See principal risks and uncertainties on [pages 78 to 86](#)



Changes to our principal risks

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

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

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

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

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

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

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

'Climate change and sustainability' replaces 'Sustainability'

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

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

RISK MANAGEMENT AND RISKS CONTINUED

PRINCIPAL RISKS AND UNCERTAINTIES

Link to the strategic elements of our Group Strategy

- 

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

2 International: Accelerate profitable growth in US and China
- 

3 Excellence: Deliver superior performance through operational excellence
- 

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

Key to risk level

- 

The risk has increased year-on-year
- 

The risk has decreased year-on-year
- 

The risk has stayed the same year-on-year

Consumer behaviour and demand



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

Link to Group Strategy



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

Competitors



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

Link to Group Strategy



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

Strategic growth and change programmes  [Link to Group Strategy](#) 

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

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

Reliance on a small number of key customers  [Link to Group Strategy](#) 

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

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

RISK MANAGEMENT AND RISKS CONTINUED

Food safety and integrity



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

[Link to Group Strategy](#)



Description of risk

We produce a significant volume of food that is consumed by millions of people every day. It is our duty to make food that is both safe, and clearly and correctly labelled. There are risks that products may be contaminated either accidentally or deliberately in the supply chain. The effect of this could be to compromise the safety of our products for consumers, adversely affect consumer confidence and potentially breach the trust of our customers. It may also lead to product withdrawal or recall, resulting in financial and/or reputational impact on the Group and potential loss or reduction in business.

Mitigations

Industry leading standards of food safety, including traceability procedures and processes, are maintained across the Group and this is overseen by our strong central technical function. We use Hazard Analysis Control Point principles at all our sites to identify and control food safety risks, and colleagues are trained in these procedures. Each site has a team of technical/food safety experts who report and monitor performance against a number of food safety metrics and measures, and these are reported to the Management Board and Group Board on a monthly basis, which includes explanations of variances and detail of any significant issues. To ensure compliance, our sites are subject to regular audits against recognised global food safety standards by our internal central technical team, customers, and independent bodies on both an announced and unannounced basis. We continue to monitor any emerging issues to ensure we meet increasing compliance requirements.

The Group also operates robust risk assessment and management processes across its supply chain. This includes audits of both new and existing suppliers, stringent supplier approval processes, and setting clear expectations through our Supplier Code of Conduct. Suppliers are required to demonstrate compliance with the Supplier Code of Conduct through self-assessment questionnaires and we seek corrective actions if required.

Developments in 2021

In 2021, 116 Internal Audits and 61 External Audits were carried out at our sites, and 154 audits were carried out on Group suppliers and growers.

Further, allergen management plans have been revised and training workshops held across the UK sites, which commenced in July 2021 to aid implementation. There is an ongoing project with equipment providers to drive operational and functional improvements in labelling controls, including upgrading the system to the latest version of Windows to future proof the system and help accelerate system set up at the start of production runs.

During the year, all of our direct suppliers to the UK business were evaluated on environmental, ethical and integrity issues and we continue to engage directly to support suppliers in aligning their performance to our requirements as set out in our Supplier Code of Conduct. In 2021 a small number were engaged with directly due to insufficient evidence of compliance with the Supplier Code of Conduct. We agreed action plans with them and by the end of the year all suppliers met the requirements.

Health and safety



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

[Link to Group Strategy](#)



Description of risk

We recognise our duty of care to secure and protect the health and safety of our colleagues, contactors and visitors. Failure to maintain appropriate health and safety across the Group could result in significant reputational, regulatory and/or financial impact to our business.

Mitigations

The Group has well-established, strong health and safety processes and controls in place across all sites, and this is supported by an established culture of engagement around accident prevention across the Group. Health and safety is managed locally by colleagues at sites, supported by the Group's in-house health and safety experts who review and share standards and best practice, support implementation of new processes and controls, and monitor health and safety performance metrics on a regular basis. Each site reports and monitors performance against a number of health and safety metrics and measures, and these are reported to the Management Board and Group Board on a monthly basis, with detail of any significant issues reported immediately.

Developments in 2021

We have continued to adapt our COVID-19 related controls and processes to reflect the latest regulations, guidance and risk profile at each of our sites across our three regions.

We have reduced the total number of accidents in the UK (per 100k employees) by 4.8%, however, we saw a 1.2% increase in accident frequency with >7 days lost time and our major accident rate increased by 16% compared to 2020. Despite this, we remain well below industry averages. Our focus on reducing slips and trips in 2021 has seen the introduction of standardised wellingtons across our UK sites, providing a boot that offers slip resistance, comfort, chemical resistance and foot protection. Health and safety concerns are dealt with effectively and actions are fed back reflecting the strong culture and focus on health and safety across the business.

In China, since February, we have implemented the Environment, Health and Safety ("EHS") business meeting (training) system for our mainland factories. To date 10 meetings have been held to share and exchange information on the four key areas: the use of ascending ladders, limited space for traffic safety, fire protection and evacuation and warehouse safety.

Supply chain  [Link to Group Strategy](#)

1 **3** **4**

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

Description of risk	Mitigations	Developments in 2021
<p>The Group's cost base and margin can be vulnerable to fluctuations in the price and availability of raw materials, packaging materials, energy and freight.</p> <p>The loss and/or interruption in supply from a major supplier could impact the Group through disruption in our factory operations and may result in an impact on customer service levels.</p> <p>Failure to supply required volumes and deliver acceptable customer service levels could limit revenue growth and increases the risk of adversely impacting customer relationships.</p> <p>Climate change will expose suppliers to acute and chronic risks which we will need to understand when allocating supply programmes and developing our supply base.</p>	<p>In combination with our strong supplier relationships and our robust approach to supplier selection and monitoring, and management processes, the Group is highly experienced in maintaining a sophisticated supply chain in an agile manner. Our centralised procurement team includes commodity focused specialists and 'on the ground' presence in China, Spain, Italy, United States of America and South America. They are focused on achieving the right balance between price, quality, availability, and service levels, and manage a robust demand and supply forecast. We make limited use of forwarding agents ensuring our direct management of any disruption to product availability and/or transport.</p> <p>Agreements with customers are made, where possible, to account for forward purchasing and price variations. The Group has several raw materials cost pass-through mechanisms in place with its customers, which allow us to recover the impact of increased costs due to changes in raw material prices. We also remain focused on driving productivity improvements across our sites, which helps to mitigate and offset the impact on margin of any increases in input cost prices.</p> <p>For our UK business we source our raw materials from the UK wherever possible (2021: 57%). Through the year, we switch suppliers to match reasonable availability, particularly in the spring and summer when UK crops are more readily available, and also aim to dual-source where possible to reduce reliance on a single supplier.</p>	<p>In 2021, the impact of Brexit trade negotiations, coupled with the continuing impact of COVID-19, on the demand profile and availability of raw materials and HGV drivers across the supply chain, has driven inflationary pressure across all three regions which has intensified through the second half of the year.</p> <p>We have been relatively unaffected by the disruption to distribution across the industry to date, and we have continued to work collaboratively with our customers who manage outbound distribution from our sites to stores. Our raw material pricing models have remained effective and we have been successful in increasing customer prices starting from the fourth quarter in 2021 through to early 2022.</p> <p>Our procurement, commercial and operational teams have worked jointly on de-risking projects to help avoid or offset cost inflation and disruption both in the manufacture of existing products and to help inform new product development.</p> <p>Initiatives have included a review of sourcing plans (e.g. country of origin or a different supplier), identifying options for substituting materials by changing product specifications and the forward purchase of certain input costs (e.g. electricity).</p> <p>Our drive for operational efficiency improvements to help offset inflationary pressures continued. The roll-out of a new factory management system is on track and in 16 UK sites, we have made progress in improving energy efficiency as we installed LED lighting and continued to replace F-gas, and we have increased our investment in colleague training.</p> <p>Developments in 2022: At the time of writing, the conflict in Ukraine is not causing a direct impact to our supply chain as we do not have significant exposure to the region. There are potential knock on impacts which may cause certain European commodities (e.g. wheat) and energy markets to strengthen. We have forward contracts in place which provides us with security of supply for up to 12 months.</p>

RISK MANAGEMENT AND RISKS CONTINUED

Availability, recruitment, and retention of colleagues



Link to Group Strategy

1

2

3

4

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

Description of risk	Mitigations	Developments in 2021
<p>Being able to attract, recruit and retain talented and committed colleagues, who understand and respect our values, is critical to ensuring the Group can successfully deliver on its strategic growth objectives.</p> <p>There is a risk that labour availability and cost will be affected by political, economic, legislative and regulatory developments and this could have an adverse impact on the Group. In addition, increasing competition from other similar businesses and/or local employers could also reduce the availability of labour and increase cost pressure.</p>	<p>The Group has strong recruitment processes in place, which it continually reviews and seeks to improve to reflect the latest market developments. This is managed by our central talent team and supported by regional Heads of HR. Our recruitment efforts are tailored to the local region and area, with specific campaigns and focus groups in place. We seek to offer competitive remuneration and benefits packages and we are committed to investing in training and development to upskill our colleagues, provide opportunities for promotion, and seek to enhance and upgrade site facilities to make Bakkavor a better place to work. Our salaried colleagues are incentivised to drive a reduction in employee turnover, with one of the two short-term bonus plan criteria based on a reduction in UK employee turnover, and this has been in place since 2018. We conduct an annual performance appraisal process for all salaried colleagues and also perform an Employee Engagement Survey every 18 months. Where we have temporary vacancies, we seek to fill them wherever possible through direct recruitment, but we also use agency labour providers in some instances, and this provides us with a short-term solution to managing our labour and manpower planning.</p> <p>The Nomination and ESG Committee ensures plans are in place for orderly succession to the Group Board, Management Board and Senior Executive positions and oversees the development of a diverse pipeline for succession.</p> <p>We continue to drive operational efficiency to help manage and mitigate the impact of an increase in the cost of labour.</p> <p>For detail of our approach to responsible recruitment and employment, including modern slavery, refer to the Trusted Partner section on pages 34 to 53.</p>	<p>Whilst we experienced a fall in employee turnover during the periods of restriction due to the COVID-19 pandemic at the start of the year, the availability and turnover of colleagues across our business have become increasingly challenging. This is driven by demand returning rapidly following the easing of COVID-19 related government restrictions and changes in immigration law, following the UK's exit from the European Union, coming into effect.</p> <p>Further, as the recruitment and retention of employees has become increasingly difficult at all levels, this has resulted in inflationary pressure as employers seek to adjust their compensation to attract and retain colleagues.</p> <p>We deployed several initiatives to support the recruitment and retention of our colleagues, which included increased flexibility in shift patterns, part time work and working from home; implemented out of cycle pay rate increases following detailed benchmarking; referral bonus schemes; and provided free transport to several UK sites to support accessibility from local urban areas. We have sought to mitigate the increase in labour costs through customer pricing; specifically, in the UK our customers have supported the wage rates increases implemented in December 2021, and in the US and China we incorporated labour costs into our overall customer pricing discussions.</p> <p>In response to feedback from the most recent EES, we have refreshed our values and ensured they reflect where we are today and in the future, and this provides an umbrella under which our offer sits. We have also increased our investment in training and development, have been recognised for our industry leading graduate and apprenticeship programmes and have bolstered our wellbeing support. Refer to further detail in the Trusted Partner section on pages 34 to 53.</p>

Brexit disruption



[Link to Group Strategy](#)

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

Description of risk	Mitigations	Developments in 2021
<p>The UK's departure from the EU and its associated regulatory changes creates uncertainty, and a failure to prepare could result in disruption to Group operations and impact our ability to supply customers.</p> <p>Specifically, there continues to be uncertainty over potential disruption at ports of entry when final import regulations are fully introduced and trade with Northern Ireland is also at risk of disruption when export protocols are finalised. In addition, the introduction of duty payable on the import and export of products could increase costs and result in products being de-listed.</p>	<p>The Group has a longstanding Brexit Working Group in place, supported by dedicated internal resource as required, which ensures Brexit risks and issues are identified, and mitigations are regularly reviewed, including organisational changes, systems development, customer plans, stock levels and employee retention. Regular updates on Brexit risks and issues are provided to the Group Board and Audit and Risk Committee.</p> <p>Our Bakkavor Inbound Logistics ("BIL") team, based in Southern Spain and Lincolnshire, took responsibility for all imports to the UK business from the EU and the rest of the world at the end of the transition period. Their strong direct relationships with suppliers and hauliers, combined with years of experience, mean we are well-placed to manage and mitigate the impact of any disruption.</p> <p>Bakkavor has Authorised Economic Operator ("AEO") status in the UK, demonstrating our professional standards of customs clearance administration. For exports to Northern Ireland, we are registered under the UK Trader Scheme so that no duty is payable on imports to Northern Ireland, and we utilise the STAMNI attestation arrangements to avoid the need to complete EHC on all products containing products of animal origin ("POAO"). To support exports to the Republic of Ireland, we are a member of the Groupage export facilitation scheme, enabling us to group multiple products of the same type under a single EHC if required.</p> <p>We purchase forward currency contracts to mitigate the extent that Brexit developments cause volatility and weakening in Sterling-Euro exchange rates. We also look to source our raw materials from the UK wherever possible, thereby reducing exchange rate exposure and also mitigating the impact of potential disruption at ports of entry.</p> <p>Refer to further detail of people mitigations and developments in the 'Availability, recruitment and retention of colleagues' principal risk.</p>	<p>Following extensive preparation and planning, disruption caused by Brexit has been limited. Continued investment in our colleagues, processes and procedures, as well as continuing to engage extensively with our customers and suppliers, resulted in minimal disruption to both inbound and outbound supply chains.</p> <p>BIL and our central procurement team have engaged with over 200 suppliers around the changes to importing goods to the UK, resulting in changes to contracting terms. We have centralised customs declarations through one team, supported by the recruitment of additional colleagues whom we trained as customs agents, and trained all UK sites on customs procedures for receipting goods. We have also implemented software to interface the BIL Enterprise Resource Planning ("ERP") system directly with HMRC's systems. All import clearances are now completed in-house, managing imports from 21 countries. Further, we have established an additional consolidation warehouse in Northern Italy, enabling us to consolidate our EU supplies into trucks and reduce potential customs and EHC errors or delays.</p> <p>From an outbound perspective, we have developed a software application that captures product and supply chain details to generate the required export documentation required to export goods to our customers in Ireland. At the beginning of 2021, new border control arrangements in the Republic of Ireland did result in some short-term delays but the impact was limited, and with the support of our customers, we have rationalised several product ranges to simplify the export arrangements.</p> <p>We launched an engagement drive to inform and support our EU national colleagues across our UK sites in claiming their right to settled status in the UK ahead of the 30 June 2021 deadline.</p> <p>The Group remains focused on the further administrative changes to come, preparing for the introduction of EU export health certificates and import of Products, Animals, Food & Feed System (IPAFFS) submissions from July 2022.</p>

RISK MANAGEMENT AND RISKS CONTINUED

COVID-19 pandemic



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

Link to Group Strategy



Description of risk

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

Mitigations

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

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

Developments in 2021

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

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

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

IT systems and cyber risk



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

Link to Group Strategy



Description of risk

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

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

Mitigations

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

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

Developments in 2021

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

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

Climate change and sustainability		
 Link to Group Strategy <div style="display: flex; justify-content: flex-end; gap: 10px;"> 1 2 3 4 </div> <p>The risk has stayed the same year-on-year.</p>		
Description of risk	Mitigations	Developments in 2021
<p>Climate change is the most significant sustainability challenge globally and has the potential to have a significant impact on the environment in which we operate. Addressing climate change and mitigating the impact has become a key priority for governments, organisations and individuals.</p> <p>There is a risk that the Group may not be able to deliver on its climate change and sustainability commitments, which could have a reputational, financial, legal and or regulatory impact on the business. Climate change will increase the cost of insurance if physical damage to properties becomes more common.</p>	<p>The Group takes its responsibility to build a sustainable business seriously. We work collaboratively on the issues that are most material to the Group and our approach is underpinned by our Trusted Partner strategy.</p> <p>We monitor and report on several non-financial KPIs including net carbon emissions, food waste, packaging use, health and safety.</p> <p>Refer to Trusted Partner section on pages 34 to 53 and Non-financial KPIs on pages 28 to 29.</p>	<p>In 2021 we formalised our commitment to reaching Net Zero across our Group operations by 2040 and are in the process of developing and refining our roadmap to support the delivery of this.</p> <p>We engaged Willis Towers Watson to perform a detailed assessment of the Group's climate change risks. This work concluded that in the short term, climate change presents a relatively low level of risk for the business. With time, however, the financial impact on the business increases as carbon taxes are forecast to increase, the availability of certain raw materials in supply regions that may be affected by climate change may reduce and therefore cause prices to increase, and consumer demand may change. Given the importance of the climate agenda, we report against the recommendations of the TCFD and full details of our climate risk assessment can be found on pages 54 to 61.</p>
Disruption to Group operations		
 Link to Group Strategy <div style="display: flex; justify-content: flex-end; gap: 10px;"> 1 2 3 4 </div> <p>The risk has stayed the same year-on-year.</p>		
Description of risk	Mitigations	Developments in 2021
<p>Catastrophic damage to one or several of our sites by fire, flood, mechanical breakdown and/or natural disaster.</p>	<p>Building and property management protocols are employed and audited in conjunction with our property insurers. Regular reporting of progress on recommended site improvements following site visits encourages prompt resolution.</p> <p>Each site has business continuity and disaster recovery plans in place, to ensure identification of key risks, assessment of key controls, improvement actions required and preparedness for an event and detail the procedures to be followed in the event of a range of different disruptions.</p>	<p>Crisis management training has been developed for our UK sites. This was launched in September 2021 and training has commenced for the leadership teams at four of our UK sites so far.</p> <p>We carried out audits, with the support of our insurers and insurance brokers, on nine of our UK sites and two of our China sites. In the US, we completed fire safety investments in conjunction with our US insurer at two sites.</p> <p>We engaged Willis Towers Watson to perform a detailed assessment of the Group's climate risk exposure, both transition and physical risk, and further detail of this can be found in the TCFD section on pages 54 to 61. The physical risk assessment covers all our sites worldwide plus those of our major competitors and is designed to help guide our ongoing investment plans to avoid disruption due to climate change.</p>

RISK MANAGEMENT AND RISKS CONTINUED

Treasury and pensions		
		
The risk has stayed the same year-on-year.		
Link to Group Strategy  		
Description of risk	Mitigations	Developments in 2021
<p>To achieve our strategic growth objectives, the Group requires a strong financial position. The Group has debt facilities governed by financial agreements, under which the Group is subject to various financial covenants and information undertakings. The Group also has sustainability targets in its core financing agreement. Breaching of a covenant may impact the Group's investment strategy, our ability to maintain existing and secure future financing and/or be subject to further restrictions, and the cost of interest on our debt.</p> <p>By nature of its global operations and supply chain, the Group purchases raw materials, packaging and other indirect supplies in foreign currencies and therefore the Group is exposed to changes in exchange rates, which can have an impact on business results.</p> <p>The Group has a defined benefit pension scheme which closed to future accrual in 2011. The scheme is exposed to movements in interest and inflation rates, values of assets and increased life expectancy for scheme members.</p>	<p>The Treasury function operates within a framework of Group Board approved policies and procedures for financial risk management including risks for funding, liquidity, currency, interest rate and counterparty credit. Our financial results and projections are monitored on a regular basis, through weekly, monthly and quarterly reporting and forecasting. This includes analysis and review of cash flow, liquidity and covenant performance. We maintain a regular dialogue with our financial lenders, updating them on the business performance and latest developments.</p> <p>The Group has a Currency Hedging Committee that meets on a quarterly basis to ensure that the Group complies with its 18-month rolling hedging policy for purchases. The Hedging Committee sets out the target hedging rates for the Treasury function for the following quarter to ensure compliance with the policy is maintained.</p> <p>The pension trustees are updated on the scheme performance and funding position on a quarterly basis. The trustees also review investment manager performance with independent advisers to ensure that target performance levels are being achieved and take appropriate action when required. The defined benefit pension scheme has hedges in place to mitigate a large portion of the exposure to inflation and interest rate movements.</p>	<p>Despite the impact of the COVID-19 pandemic, and latterly the industry-wide supply chain challenges, we have continued to operate with significant liquidity headroom and reduced net debt by £39.7 million, with leverage of 1.9 times now within our medium-term target range. Correspondingly, due to lower average debt levels in the period, interest costs have reduced. This also reflects the Group's voluntary repayment of £37.5 million of its most expensive debt. The Group extended the maturity date of £430 million of its core debt facilities from March 2024 to March 2025.</p> <p>The Group has maintained its 18-month rolling hedging policy for purchases.</p> <p>The pension trustees have made changes to the investments held to ensure that target investment returns are achieved but the overall risk profile is also lowered. This resulted in the surplus in the scheme at the end of 2021, under IAS 19 valuation principles, increasing to £37.2 million from £11.2 million at the end of the prior year.</p>
Legal and regulatory		
		
The risk has stayed the same year-on-year.		
Link to Group Strategy  		
Description of risk	Mitigations	Developments in 2021
<p>The Group is subject to a wide range of legislation, regulations and codes of practice across the geographies in which we operate. They cover many aspects of our business including food safety, health and safety, data privacy, competition, ethical business, tax, and financial reporting. Failure to comply with local laws or regulations, or breach of internal policies and standards, could impact our reputation, result to financial penalties and cause operational disruption.</p>	<p>Senior Executives monitor relevant laws and regulations to ensure compliance across legal, financial, tax, HR, food safety, health and safety, and environmental matters. Our internal auditors provide assurance on our risk management framework.</p> <p>Key Group policies are reviewed and updated on an annual basis by the Group Legal team. These Group policies contain guidance on our standards and procedures. The Group has an internal e-learning compliance programme in place which seeks to raise awareness of key risk areas for the Group and reinforce know-how and practice within the business, and this is undertaken on an annual basis. This training is supplemented by an additional programme of external legal and governance training for relevant operational parts of the Group.</p>	<p>In 2021, Group Legal launched a refresher e-learning training on anti-bribery and corruption and data protection for all salaried colleagues.</p> <p>Group Legal facilitated additional training workshops for key stakeholders in Commercial, Procurement, Information Security and HR on UK GDPR, intellectual property and employment via our external legal advisers.</p> <p>An I&D Forum was established at the beginning of 2021 to formalise our governance and support the delivery of our objectives in this area. The forum has organised a broad range of Group-wide and site focused events through the year.</p> <p>Group Legal organised ESG governance and oversight know-how and training for the Group Board and Management Board.</p>