The specialist international retail meat packing business

Annual report and
financial statements 2013



Business overview

Hilton Food Group plc, the specialist retail meat packing business supplying major international food retailers in 13 European countries and Australia, announces its results for the 52 weeks ended 29 December 2013.

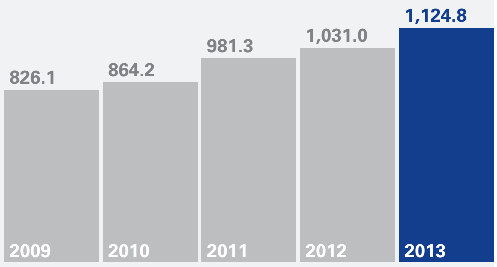
In 2013 Hilton made excellent progress in terms of implementing its future growth strategy, including the further development of our Australian joint venture and the new UK contract with Tesco. The Group has maintained a high level of investment in its meat packing facilities across Europe whilst realising the available opportunities to progressively and profitably expand its business.

The strategic progress made during 2013 illustrates well the continued relevance and international transferability of Hilton's business model.

2013 performance highlights

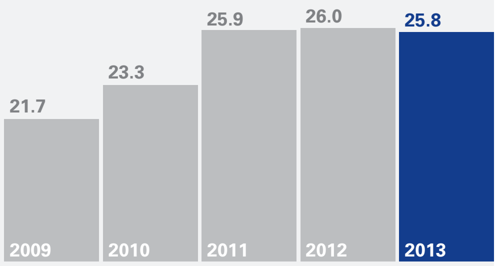
Revenue (£m)

£1,124.8m
+9.1%
2012: £1,031.0m



Operating profit (£m)

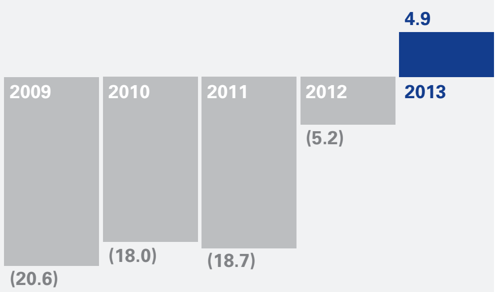
£25.8m
–0.7%
2012: £26.0m



Closing net cash/(debt) (£m)

£4.9m

2012: £(5.2)m



2013 performance highlights
continued

Strategic highlights

The joint venture with Woolworths Limited in Australia announced in January 2013 is performing well and in line with expectations.

The conversion of the Bunbury site in Western Australia, to increase retail packed meat production, is substantially complete.

In August 2013 Woolworths announced the construction of a new dedicated retail packed meat facility, near Melbourne in Victoria, due to commence production in 2015, which will be operated by our joint venture company.

In early December 2013 we announced a five year long term supply agreement with Tesco which is expected, on a progressive basis, to substantially increase Hilton's UK volumes.

Operational and financial highlights

Revenue growth of 9.1%, with increases in the UK, Denmark and Holland (the latter accelerated by new product launches). Revenue benefited in 2013 from the recovery of higher meat prices and favourable movements in exchange translation.

Volume growth of 2.0%, with new product lines introduced in Holland and continued growth in Denmark offset by continuing pressures on consumer spending, particularly in Ireland and Central Europe.

Operating profit of £25.8m only marginally below the previous year's level (2012: £26.0m) after bearing start-up costs of £1.4m in Australia.

Free cash flow of £17.0m, despite a higher level of investment in equipment and facilities, moving the Group into a net cash position at the year end.

A strong balance sheet with no gearing and interest cover at 29 times underpinning both future expansion and a progressive dividend policy.

Where we operate

Ireland
Location: Drogheda
Customer: Tesco Ireland
Commenced production: 2004

Denmark
Location: Aarhus
Customer: Coop Danmark
Commenced production: 2011

United Kingdom
Location: Huntingdon
Customer: Tesco UK
Commenced production: 1994

Netherlands
Location: Zaandam
Customer: Albert Heijn
Commenced production: 2000

Sweden

Location: Vasteras
Customer: ICA
Commenced production: 2004

Australia

Location: Bunbury
Customer: Woolworths
Commenced joint venture: 2013

Central Europe

Location: Tychy, Poland
Customers:
Ahold Central Europe
Rimi Baltics
Tesco Central Europe
Commenced production: 2006

Melbourne

Under construction

Strategic report

Chairman's introduction

Annual report format

Our Annual report this year comprises three parts, a Strategic report followed by a Governance section and the Financial statements.
The Strategic report includes detail on our business model, our strategy and objectives, our widening geographical scope, our people, the development of our businesses in 2013 and our current view on some past and potential future trends. This is in addition to the normal financial analysis of our trading during 2013 and our position at the end of that year, consideration of our risk management strategy and our corporate social responsibility report.

Strategic progress achieved in 2013

The Group made excellent strategic progress during the year. In January 2013 we announced a joint venture with Woolworths in Australia. The joint venture's initial task was the conversion of Woolworths' meat processing facility at Bunbury, in order to substantially increase production of retail packed product lines. This has been executed to plan, with the new product lines being well received by the local market.

In August 2013 Woolworths announced that it would proceed with plans to construct a new meat processing facility near Melbourne in Victoria which would be operated by our joint venture company, with production currently targeted to commence in 2015. This marks a significant milestone in the further development of our joint venture.

In early December 2013 we announced a five year long term supply agreement with Tesco for the UK, under which the volumes supplied by Hilton are planned to increase substantially over the course of 2014.

Board composition

The Board is responsible for the longer term success of the Group and to achieve this it contains an appropriate mix of skills and depth of practical business experience, which is available to support and guide our management teams across a progressively widening range of countries. There have been no changes in Board membership during 2013 and I would like to take this opportunity to thank my colleagues on the Board for their continued sound counsel, expertise and support.

Group performance and dividend policy

Volume growth was achieved during 2013, in the face of continued pressure on consumer spending across Europe, which was particularly marked in Ireland and Central Europe. Despite the start-up costs incurred in connection with the new Australian joint venture, profit progress was achieved in 2013 at the post tax level.

The Group's net income in 2013 at £17.8m was 1.4% higher than in 2012 (£17.6m) with earnings per share at 25.0p slightly ahead (2012: 24.9p). Hilton has continued to generate significant free cash flow having reduced its net debt level in every year since its flotation in 2007. In 2013 the Group moved into a net cash position by the end of the financial year.

During 2014 material capital expenditure will be incurred at the Group's United Kingdom facilities in Huntingdon which will enable the planned UK volume increases for Tesco. This will include investment in a further production unit. Substantial capital expenditure will also be incurred during 2014 at Vasteras in Sweden to replace production lines at the end of their economic life with state of the art equipment; this will achieve higher line speeds and reduced manning requirements, designed to achieve reduced unit packing costs.

The Group has maintained a progressive dividend policy since flotation, which remains appropriate given both the strategic progress achieved in 2013 and Hilton's continuing level of cash generation. The 5.8% increase proposed in the final dividend for 2013 will increase the total dividends paid in respect of 2013 by 6.3%, as compared to last year.

Annual General Meeting

This year's AGM will be held at the Old Bridge Hotel, 1 High Street, Huntingdon, Cambridgeshire PE29 3TQ on 14 May 2014 at noon and I look forward to seeing you there.

Sir David Naish DL
Non-Executive Chairman
26 March 2014

Chief Executive's summary

Our business model

Our business model is relatively straightforward. We operate large scale, highly mechanised, extensively automated meat processing and packing facilities for major international multiple retailers on a dedicated basis. The one exception is in Central Europe, where our facility in Poland supplies three retailers in order to achieve critical mass, in terms of volumes supplied and the ability to achieve competitive unit packing costs.

Raw material meat is sourced, in conjunction with our retail partners, from a wide and growing international base of proven suppliers paying due regard to our partners preferences. It is then processed, packed and delivered to the retailer's distribution centres. Our plants are highly automated and use advanced robotics for the storage of raw materials and finished products. This developing technology has been extended both in the production environment and to the sorting of finished products by retailer store order, achieving material supply chain efficiencies for our customers.

In Europe we have six facilities each run by a local management team. These operate under the terms of five to ten year long term supply agreements with our retail partners, either on a cost plus or agreed packing rate basis. This maximises the volume throughput whilst minimising unit packing costs. In Australia our joint venture company receives a volume related management fee in respect of the facilities it operates on behalf of Woolworths.

We are a very committed and loyal partner with a continuing record of delivering value through quality products with the highest levels of food safety, traceability and integrity, whilst providing a range of services which enable our customers to evolve and improve their meat supply chain management. Our customer base comprises high quality multiple retailers and our in depth understanding of our customers' needs, together with those of their consumers, enables us to play an active role in managing their meat supply chains providing agile responses to supply chain challenges as they arise from time to time. As our customers' markets change and competition increases, we need to focus on the challenges they face and be able to advance flexible solutions, together with continuing increases in efficiency and cost competitiveness.

To ensure our continued competitiveness, we seek to keep ourselves at the forefront of the meat packing industry. We constantly seek to drive further efficiencies and our modern, very well invested facilities are considered a key factor in keeping unit packing costs as low as possible. Over the decade to December 2013, we have invested continuously, across all areas of our business, from the sourcing of raw materials, the design of packaging materials, increased efficiency in processing and storage solutions and updating our IT infrastructure. Capital expenditure over this period has totalled over £165m. This investment, combined with continuing volume growth, has allowed us to partly offset inflationary pressures, including the progressive rise seen over recent years in raw material meat prices.

The strength of our long term partnerships with our retail customers has been a key driver of our growth since the Group was formed and will continue to underpin the Group's strategy. Hilton's business model has proved successful across a range of European countries, appropriately adapted in each case by working in close collaboration with its local customers to meet their specific requirements. Our experience to date indicates that it can be transferred over time to a number of new countries, most recently in Australia.

Our strategy and objectives

Our strategy is to support our customers' brands and their development in their local markets, whilst achieving attractive and sustainable rates of growth and returns for our shareholders. This single minded and straightforward approach has generated continuous growth over an extended period and, with a growing reputation, well invested facilities and a strong balance sheet, the Group remains well placed to achieve further progress.

Hilton builds long term customer and shareholder value by focusing on:

– Growing volumes and extending product ranges supplied and services provided to existing customers;

– Maintaining an uncompromising focus on food safety and integrity and reducing unit costs while improving product quality and service provision; and

– Entering new territories either with new customers or in partnership with our existing customers.

We will continue to pursue measured and well thought out geographical expansion, whilst actively developing, enriching and expanding the scope of our existing business partnerships, playing a full and proactive role in strongly supporting our customers and the successful development of their businesses.

Chief Executive's summary
continued

Our widening geographical coverage
The Group's past expansion has been based on its established track record, together with its growing international reputation and experience and the recognised success of the close partnerships it has forged and maintained with its successful retail partners. The six European countries in which the Group currently operates, with the dates operations commenced in each country are set out below:

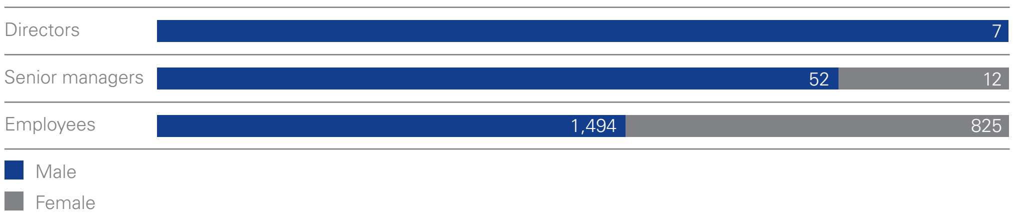
The joint venture with Woolworths in Australia, announced in January 2013, involves the joint venture company managing Woolworths' meat processing and packing facilities at Bunbury in Western Australia and Brismeats in Eastern Australia and from 2015 a green field state of the art meat packing facility near Melbourne, in Victoria.

Year	1994	2000	2004	2004	2006	2011
Country	UK	Holland	Ireland	Sweden	Central Europe	Denmark
Location	Huntingdon	Zaandam	Drogheda	Vasteras	Tychy, Poland	Aarhus
Customers	Tesco UK	Albert Heijn	Tesco Ireland	ICA	Ahold Central Europe, Tesco Central Europe and Rimi Baltics	Coop Danmark

In 2013 72% of the Group's turnover was earned in countries outside the United Kingdom, together with 78% of the volumes of meat delivered. This widening geographical spread makes the Group increasingly resilient and minimises its dependence on the fortunes of any one individual economy.

Our people
The Group currently employs over 2,300 employees, in six European countries. Our business model is decentralised, with capable, largely self-sufficient management teams running our businesses in each country. We consider this structure to be essential, as it achieves very close working relationships with our customers, who benefit from dedicated, flexible and rapid local support.

We believe that successful businesses are about having the right people in the right positions working together as "one team", with local management teams empowered, encouraged and advised in specialist areas to enable them to support their local customers. We are committed to providing an inclusive working environment where everyone feels valued and respected and where people from different backgrounds, experiences and abilities can bring benefits to our business.



We fully recognise the benefits of gender diversity. At the end of 2013 the number of male and female Directors of the parent company, senior managers and overall workforce were as above. Our workforces are in many cases ethnically diverse. Rates of pay are set to recruit and maintain high quality workforces at each location.

The Board fully understands and appreciates just how much our progress relies on the effort, personal commitment, enthusiasm, enterprise and initiative of our employees and I would like to take this opportunity, on behalf of the Board, to personally thank all of them both for their dedicated efforts during 2013 and continuing commitment to the Group's ongoing growth and development.

Business development in 2013

Our business comprises three distinct operating segments:

Western Europe

Operating profit of £27.9m (2012: £27.7m) on turnover of £1,028.7m (2012: £935.4m)

This operating segment covers the Group's businesses in the UK, Ireland, Holland, Sweden and Denmark. Volume growth of 2.9% was achieved, with turnover growth of 10.0%. This reflected volume growth in Holland and Denmark, driven by new product lines and expanded meat packing capacity respectively. Volumes in Ireland were reduced with consumer spending remaining under continuing pressure. Turnover growth benefitted from the recovery of higher raw material meat prices and favourable movements in exchange translation.

Chief Executive's summary
continued

The robotic store order picking facility for Coop Danmark which handles, in addition to our own production, a range of third party Coop products such as poultry, has built volumes in line with our expectations. Services such as this, which enable us to manage the meat supply chain more efficiently from raw material procurement to store delivery, represent an important addition to our supply chain optimisation offering. A facility of this type will be incorporated in the new Melbourne meat packing facility for Woolworths due to commence production in 2015.

Central Europe
Operating profit of £2.5m (2012: £2.3m) on turnover of £96.1m (2012: £95.6m)

In Central Europe the Group's meat packing business, based at Tychy in Poland, supplies three customer groups across Central Europe, from Hungary to the Baltics. In 2013 this multi-customer business supplied Ahold stores in Czech Republic and Slovakia, Tesco stores in Hungary, Czech Republic, Poland and Slovakia and Rimi stores in Latvia, Lithuania and Estonia. In very competitive market conditions volumes declined by 2.5% in 2013, but reflecting the recovery of higher raw material meat prices and favourable exchange rate movements, turnover increased marginally, by 0.5%.

The resumption of volume growth combined with a rigorous focus on cost control remain the keys to achieving the very low levels of unit packing costs required for our customers to be able to compete strongly and grow in these very competitive developing markets.

Central costs and other
Net operating cost £4.6m (2012: £4.0m)

This segment includes the income from our joint venture with Woolworths of £0.5m (2012: £nil), the start-up costs in connection with that joint venture of £1.4m (2012: £nil) and central costs of £3.7m (2012: £4.0m).

In Australia the Group is involved in a joint venture with Woolworths, under which it earns a fifty per cent share of the agreed fees charged by the joint venture company for operating certain Woolworths' meat processing and packing plants, based on the volume of retail packed meat delivered to Woolworths' stores.

In May 2013 the joint venture company took over responsibility for the operation of Woolworths' Western Australian meat processing centre in Bunbury, near Perth. The conversion of this facility to enable a substantial increase in retail packed meat production has been largely completed. Approximately £0.5m of the start-up costs related to the Bunbury redevelopment.

In August 2013 the building of a purpose built retail packing facility near Melbourne in Victoria was announced which will be operated by the joint venture company and is expected to commence production in 2015.

Past and anticipated future trends

Hilton's growth has been aided by the consumer trend in most countries towards convenience and one stop shopping.

As the larger general retail chains have gained a greater share of the grocery markets, they have increasingly turned to large scale, centralised meat packing plants capable of producing private label packed meat products more hygienically and cost effectively. In doing so, they have rationalised their supply base, achieving lower costs and higher food safety, food integrity, traceability and quality standards. This has allowed supermarket groups to focus on their core business and maximise their return on available retail space whilst addressing consumers' requirement for value.

Whilst grocery retail markets are expected to remain extremely competitive, with pressure on consumer expenditure and smaller format outlets gaining share, the trend towards increased use of centralised meat packing solutions is continuing at different speeds across the world. This gives rise to a wide range of potential future geographical expansion opportunities for Hilton, albeit in a range of different timescales.

Within retail markets patterns are also changing, with increased internet based ordering and a parallel growth in the number of 'click and collect' facilities. Following pressures on consumer expenditure over a number of years there has been increased use by cost conscious consumers of local convenience stores, to shop more frequently for a reduced overall basket cost per visit. These developments will tend to reinforce the overall trend towards retail packed meat as this is the offering in all these growth areas, but they pose logistical challenges and opportunities, given the increasing need to be able to deliver smaller drop sizes on a cost efficient basis.

Current trading and outlook

Benefitting from the new contract with Tesco in the UK and the expansion of the activities of Hilton's joint venture in Australia, Hilton's medium term growth prospects are encouraging. The shorter term economic outlook in our European markets, however, remains relatively challenging, and 2014 is likely to feature both comparatively high prices for meat and muted consumer spending, despite an improving overall economic outlook in some countries.

Turning to currency, over recent months Sterling has appreciated against a number of currencies in which the Group trades. If the relevant currency parities remain at similar levels this will serve to slightly lower the Group's results reported in Sterling for 2014, as compared to the previous year.

In the early months of 2014 Hilton's operating performance has been in line with the Board's expectations. The Group's business model has proved resilient over past difficult trading conditions and, although a high level of start-up costs will be incurred in 2014 both in relation to the expansion of the Huntingdon site and the new facility being constructed near Melbourne, the Board expects to make further overall progress.

Robert Watson OBE
Chief Executive Officer
26 March 2014

Performance and financial review

2013 financial review

Hilton's financial performance was sound in 2013, in what continued to be a relatively challenging economic environment across Europe. We increased our level of investment to support our customers, whilst strengthening our balance sheet and achieving a net cash position by the end of the year. This leaves the Group well placed to deliver future growth. This Performance and financial review covers the main highlights of the Group's financial performance and position in 2013.

Basis of preparation

The Group is presenting its results for the 52 week period ended 29 December 2013, with comparative information for the 52 week period ended 30 December 2012. The financial statements of the Group are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

2013 financial performance

Revenue

Volumes grew overall by 2.0% with strong volume increases in Holland and Denmark offset by volume reductions in Ireland and Central Europe in difficult trading conditions. Further details of volume growth by business segment are set out in the Chief Executive's summary. Revenue rose by 9.1% to £1,124.8m, as compared to £1,031.0m in 2012, reflecting both the recovery of higher raw material meat prices and favourable exchange rate movements.

Operating profit and margin

Operating profit, at £25.8m which includes Australian start-up costs of £1.4m, was marginally below the previous year's level (2012: £26.0m). The operating profit margin in 2013 was 2.3%, as compared with 2.5% in 2012, reflecting both the Australian start-up costs and the impact of higher raw material meat prices, which were recovered in higher selling prices, but do not under all Hilton's pricing arrangements give rise to a corresponding margin increase. Operating profit per kilogram of packed meat sold was 11.5p (11.8p in 2012).

Net finance costs

Net finance costs, at £0.9m were 28% below the previous year's level (2012: £1.3m). Interest rates paid have remained at historically low levels, reflecting continuing low LIBOR and EURIBOR rates, which determine the interest rates on the Group's principal borrowings. Interest costs have reduced with the shrinking net debt levels. Interest cover in 2013 increased to 29 times, as compared with 21 times in 2012.

Taxation

The taxation charge for the period was £5.5m (2012: £5.8m). This represented an effective taxation rate of 22.2% (2012: 23.5%) reflecting lower corporate tax rates.

Profit for the year

Profit for the year, at £19.4m, (2012: £18.9m) was higher than last year reflecting the reduced finance and taxation costs, which more than offset the slight reduction in operating profit.

Earnings per share

Basic earnings per share at 25.0p (2012: 24.9p) were slightly ahead of last year, with a 1.4% increase in the level of net income being offset by the dilutive effect of an increased number of shares in issue, following the exercise of executive and all employee share options. Diluted earnings per share were 24.8p (2012: 24.7p).

Free cash flow and net borrowing levels

Cash flow remained strong in 2013, with the Group generating £17.0m of free cash flow before dividends and financing, after net capital expenditure of £18.4m. Group borrowings were £29.7m at the end of 2013 and, with net cash balances of £34.6m, this resulted in a closing net cash position of £4.9m, as compared with the net debt level of £5.2m at the end of 2012. At the end of 2013 the Group had undrawn overdraft facilities of £18.3m (2012: £18.2m).

With a net cash position, the Group had no gearing at the end of 2013 and this strong financial position gives the Group considerable flexibility viewed in terms both of potential future expansion and required reinvestments such as those in the UK and Sweden in 2014.

In February 2014 the Group negotiated new and increased five year borrowing facilities with its principal bankers.

Dividends

The Board aims to maintain a dividend policy that provides a dividend level that grows broadly in line with the underlying earnings of the Group and has recommended a final dividend of 9.1p per ordinary share in respect of 2013. This, together with the interim dividend of 3.65p per ordinary share paid in December 2013, represents a 6.3% increase in the full year dividend, as compared with last year. The final dividend, if approved by shareholders, will be paid on 27 June 2014 to shareholders on the register on 30 May 2014 and the shares will be ex-dividend on 28 May 2014.

Performance and financial review

continued

Key performance indicators

How we measure our performance against our strategic objectives

The Board monitors a range of financial and non-financial key performance indicators 'KPIs' to measure the Group's performance over time in building shareholder value and achieving the Group's strategic objectives. The nine principal 'KPIs' used by the Board for this purpose, together with our performance over the last two years, is set out below:

Financial KPIs	Definition, method of calculation and analysis
Revenue growth (%) **9.1%** 2012: 5.1%	Year on year revenue growth expressed as a percentage. The 2013 increase reflected principally the impact of favourable exchange translation rates and the recovery of higher raw material prices, with overall volumes 2.0% higher.
Operating profit margin (% turnover) **2.3%** 2012: 2.5%	Operating profit expressed as a percentage of turnover. The reduction in 2013 reflected the start-up costs incurred in connection with the new Australian joint venture and the higher level of raw material meat prices which, whilst recovered in higher selling prices, do not in all Hilton's contractual arrangements feed directly through to correspondingly increased margins.
Operating profit margin (pence per kg) **11.5p/kg** 2012: 11.8p/kg	Operating profit per kilogram sold. The reduction reflects the reduced operating profit margin.
Earnings before interest, taxation, depreciation and amortisation (EBITDA) (£'m) **£41.3m** 2012: £40.4m	Operating profit before depreciation, amortisation and government capital grants. The increase reflects higher depreciation and amortisation resulting from higher capital expenditure.
Free cash flow before minorities (£'m) **£17.0m** 2012: £20.5m	Cash flow before dividends and financing after £18.4m of net capital expenditure in 2013, compared with £12.1m in 2012.
Gearing ratio **n/a** 2012: 0.1	Year-end net debt divided by EBITDA. The Group was ungeared at the end of 2013, with a net cash position.

Non-financial KPIs

Definition, method of calculation and analysis

Growth in volume of packed meat sales (%)

2.0%

2012: 4.8%

Year on year volume growth, expressed as a percentage. During 2013 volumes grew in Holland and Denmark.

Employee and labour costs (pence per kilogram)

40.1p/kg

2012: 36.5p/kg

The increase reflects the impact of adverse movements in exchange translation rates with the balance coming from an increased level of complex products in the range.

Customer service level (%)

98.3%

2012: 98.8%

Packs of meat delivered as a percentage of the orders placed. Little year on year change, with high service levels being maintained.

Performance and financial review
continued

Treasury management

Hilton does not engage in speculative trading in financial instruments and transacts only in relation to its underlying business requirements. The Group's policy is designed to ensure adequate financial resources are made available as required for the continuing development and growth of its business, whilst taking practical steps to reduce exposures to foreign exchange, interest rate fluctuation, credit, pricing and liquidity risks, as described below:

Foreign exchange rate movements and country specific risks

Whilst the presentational currency of the Group is Sterling, the majority of its revenues are earned in other currencies, currently principally the Euro, Swedish Krona and Danish Krone. The earnings of the Group's overseas subsidiaries are translated into Sterling at the average exchange rates for the year and their assets and liabilities at the year-end closing rates. Changes in relevant currency parities are monitored on a continuing basis, with the timing of the repatriation of overseas profits and the repayment of any intra group loans to UK holding companies paying due regard to actual and forecast exchange rate movements.

The Group has to date decided not to hedge its foreign exchange rate exposures, the impact of which has been broadly favourable overall over recent years, but this policy is kept under continuing review and will be reappraised as the Group's geographic spread continues to widen. The Group's overseas subsidiaries all have natural hedges in place as they, for the most part, buy raw materials, employ people, source services, sell products and arrange funding in their local currencies. As a result the Group's exposure is in the main limited to its equity investment in each overseas subsidiary.

The level of country specific risk currently remains material for many businesses, in terms of the impact of macroeconomic developments, including the impact of austerity programmes with countries still facing difficulties with their levels of national debt. The Group sells high quality basic food products, for which there will always be continuing demand, to successful blue chip multiple retailers in developed countries. Hilton has not to date been materially adversely affected by the extended recessionary environments seen in some countries, but will keep any future identified country specific risks under continuing review.

Interest rate fluctuation risk

This risk stems from the fact that the interest rates on the Group's borrowings are variable, being at set margins over LIBOR for Sterling borrowings or EURIBOR for Euro borrowings, which both fluctuate over time. The Board's policy is to have an interest rate cap on a proportion of this borrowing. The Board will review hedging costs and options should the current low interest rate environment change materially.

Customer credit and pricing risks

As Hilton's customers comprise a small number of very successful and credit worthy major multiple retailers, the level of credit risk is considered to be insignificant. Historically the incidence of bad debts has been immaterial. Hilton's pricing is based predominately either on cost plus agreements or agreed packing rates with its customers.

Liquidity risk

Over recent years this has for many businesses represented a significant area of concern, given the continuing difficult and uncertain economic environment and liquidity constraints across banking systems in Europe. The Group remains strongly cash generative, has a robust balance sheet and has committed banking facilities for the medium term, sufficient to support its existing business. All bank positions are monitored on a daily basis and capital expenditure above set levels, together with decisions on intra group dividends, are all approved at Board meetings. All long term debt is arranged centrally and is subject to Board approval.

Going concern and forward looking statements

Going concern basis

The Group's bank borrowings are detailed in the financial statements and its new banking facilities, which support the Group's existing and contracted new business, are committed, with no renewal required for five years. The Group is in full compliance with all its banking covenants. Future geographical expansion which is not yet contracted, and which is not built into internal budgets and forecasts, may require additional or extended banking facilities and such future geographical expansion will depend on our ability to negotiate appropriate additional or extended facilities, as and when required.

The Group's internal budgets and forecasts, which incorporate all reasonably foreseeable changes in trading performance, are regularly reviewed in detail by the Board and show that it will be able to operate within its current banking facilities, taking into account available cash balances, for the foreseeable future. The Group also considered the effects of the principal risks and the impact of these on the going concern assessment. The going concern basis is, accordingly, adopted by the Board in preparing the financial statements.

Forward looking statements

This Strategic report contains forward looking statements that are inevitably subject to risk factors associated with, amongst other things, economic, political and business developments which may occur from time to time across the countries in which the Group operates. It is believed that the expectations reflected in these statements are reasonable, but all forward looking statements and forecasts are inherently predictive, speculative and involve risk and uncertainty, simply because they relate to events and depend on circumstances that will occur in the future.

Nigel Majewski
Finance Director
26 March 2014

Risk management and principal risks

How we manage risk

As with all businesses, the Group is exposed to a range of risks and uncertainties which could have a significant impact on its business, reputation, operating results and financial position. The Board believes a successful risk management framework carefully balances risk and reward, and applies reasoned judgement and consideration of potential likelihood and impact in determining its principal risks. The Group has a well-developed structure and range of processes for identifying, assessing, prioritising and mitigating these key risks.

Significant risks facing the Group

The six most significant identified business risks the Group faces, which, as might be expected with a straightforward business model, are unchanged from previous years and which will continue to affect the Group's businesses, together with the measures we have adopted to mitigate these risks, are outlined in the table below. This is not intended to constitute an exhaustive analysis of all risks faced by the Group, but rather to highlight those which are the most significant, when viewed from the standpoint of the Group as a whole.

Risk description	**The Group is dependent on a small number of customers who can exercise significant buying power and influence.**
Potential impact	The Group has a relatively narrow, but expanding, customer base, with sales to subsidiary or associated companies of the Tesco and Ahold groups still comprising the larger part of Hilton's revenue in 2013. The large retail chains are continuing to increase their market share of meat products in many countries, as retail customers continue to move away from high street butchers towards one stop convenience shopping in supermarkets. This increases the buying power of the Group's customers which in turn increases their negotiating power with the Group, which could enable them to seek better terms over time.
Risk mitigation strategies	The Group is progressively widening its customer base and its maintained high level of investment in state of the art facilities, which together with management's continuous focus on reducing costs, allow it to operate very efficiently at very high throughputs and price its products competitively. Hilton operates a decentralised, entrepreneurial business structure, which enables it to work very closely, nimbly and flexibly with its retail partner in each country, to achieve high service levels in terms of orders delivered, delivery times, compliance with product specifications and accuracy of documentation, all backed by an uncompromising focus on food safety, product integrity and traceability assurance. Hilton has long term supply agreements in place with its major customers, with pricing either on a cost plus or agreed packing rate basis.

Risk description	**The Group's growth potential is dependent on the success of its customers and the growth of their packed meat sales.**
Potential impact	The Group's products carry the brand labels of the customer to whom its products are supplied and it is therefore dependent on its customers' success in maintaining or improving consumer perception of their own brand names and packed meat offerings.
Risk mitigation strategies	The Group plays a very pro-active role in enhancing its customers' brand values, through providing high quality, competitively priced products, high service levels and continuing product and packaging innovation. It recognises that quality and traceability assurance is integral to its customers' brands and works closely with its customers to ensure rigorous quality assurance standards are met. It is continuously measured by its customers across a very wide range of parameters, including delivery time, product specification, product traceability and accuracy of documentation and targets demanding service levels across all these parameters. The Group works closely with its customers to identify continuing improvement opportunities across the supply chain, including enhancing product presentation, extending shelf life and reducing wastage at every stage.

Risk description	**The progress of the Group's business is dependent on the macroeconomic environment and levels of consumer spending in the countries in which it operates.**
Potential impact	No business is immune to difficult economic climates and the consequent pressure on levels of consumer spending, such as those seen over recent years across Europe.
Risk mitigation strategies	With a sound business model, strong retail partners and a single-minded focus on minimising unit packing costs, whilst maintaining high levels of product quality and integrity, the Group has made sound progress over the recent difficult economic period. It expects to be able to continue to make progress, even if the current pressures on consumer spending, as expected, persist in some developed countries.

Risk description	**The Group's business is reliant on a small number of key personnel and its ability to manage growth and change successfully.**
Potential impact	The Group is critically dependent on the skills and experience of a small number of senior managers and specialists and as the business develops and expands, the Group's success will inevitably depend on its ability to attract and retain the necessary calibre of personnel for key positions, both for managing and growing its existing businesses and setting up new ones.
Risk mitigation strategies	To continue to manage growth successfully, the Group will carefully manage its skill resources and continue to invest in on-the-job training and career development, together with the cost effective management of quality information and control systems, whilst recruiting high quality new employees, as required, to facilitate the Group's ongoing growth. The continuing growth of Hilton's business, together with its growing reputation, is facilitating the recruitment of more top class specialists with the key skill sets required both to support our existing individual country business units and manage the Group's future geographical expansion.

Risk management and principal risks
continued

Risk description	**The Group's business is dependent on maintaining a wide and flexible global meat supply base operating at standards that can continuously achieve the specifications set by Hilton and its customers.**
Potential impact	The Group is reliant on its suppliers to provide sufficient volume of products, to the agreed specifications, in the very short lead times required by its customers. The Group sources certain of its meat requirements globally. Tariffs, quotas or trade barriers imposed by countries where the Group procures meat, or which they may impose in the future, together with the progress of World Trade Organisation talks and other global trade developments, could materially affect the Group's international procurement ability.
Risk mitigation strategies	The Group maintains a flexible global meat supply base, which is progressively widening as it expands and is continuously audited to ensure standards are maintained, so as to have in place a wide range of options should any such eventualities occur.

Risk description	**Outbreaks of disease and feed contamination affecting livestock and media concerns relating to these and instances of product adulteration can impact the Group's sales.**
Potential impact	Reports in the public domain concerning the risks of consuming meat can cause consumer demand for meat to drop significantly in the short to medium term. A food scare similar to the Bovine Spongiform Encephalopathy ("BSE") scare that took place in 1996 or the much more recent concerns with regard to horse meat substitution can affect public confidence in red meats.
Risk mitigation strategies	The Group sources its meat from a trusted raw material supply base, all components of which meet stringent national, international and customer standards. The Group is subject to demanding standards which are independently monitored in every country and reliable product traceability and high welfare standards from the farm to the consumer are integral to the Group's business model. The Group ensures full traceability from source to packed product across all suppliers.

The Board has overall responsibility for the Group's risk management processes and also for the appropriate identification of risks and the effective application of actions designed to mitigate those risks.

All types of risk applicable to the business are regularly reviewed and a formal risk assessment is carried out to highlight key risks to the business and to determine actions that can reasonably and cost effectively be taken to mitigate them. The Group's Risk Register is compiled through a combination of business unit risk registers and Board input. The Board believes that in carrying out the Group's businesses it is vital to strike the right balance between an appropriate and comprehensive control environment and encouraging the level of entrepreneurial freedom of action required to seek out and develop new business opportunities, but, however skilfully this balance between risk and reward is struck, the business will always be subject to a number of risks and uncertainties, as illustrated above.

Not all the risks listed are within the Group's control and others may be unknown or currently considered immaterial, but could turn out to be material in the future. The risks set out in the above table, together with our risk mitigation strategies, should be considered in the context of the Group's risk management and internal control framework, details of which are set out in the Corporate governance statement.

Corporate and social responsibility report

Hilton Food Group recognises its social, ethical and environmental responsibilities arising from its operations and to the welfare of employees, customers, suppliers and the communities in which we operate. The Group is committed to working in an ethical, open and honest manner to produce products of the highest quality responsibly and sustainably. The philosophies which underpin our policies for the environment, regulatory compliance, health and safety, product quality and integrity and ethical conduct are summarised below.

Complete food assurance from farm to fork

It is essential that consumers have complete confidence in the meat products they purchase and correct product label information is key to gaining consumer trust. Hilton has a pivotal role in managing a supply chain which starts on the farm. Our oversight of farm and abattoir standards ensures that the meat products we produce are of the highest quality and that the label correctly describes its provenance including species and country of origin.

Hilton strives, in partnership with our retail customers, to successfully deliver safe, consistently high quality, convenient and ready to use retail packs of beef, lamb, pork and added value meat products to ensure the highest level of consumer satisfaction. Our products are governed by EU legislation and food safety standards throughout the meat supply chain. Additionally our retail partners, who support the Global Food Safety Initiative, demand the best animal welfare standards, food factory standards and quality systems to enhance their levels of brand integrity.

A short and transparent supply chain with full traceability

Hilton is committed to ensuring that the supply chain in which we play a significant part is as short as possible. Farm reared animals are slaughtered at abattoirs from whom Hilton sources its meats and our food products are delivered directly to our retail customers for sale in their stores. Our quality systems provide full traceability of all meat that we use.

Where our meat comes from

As specialist retail meat packers, Hilton can source its requirements for primal meat from the most advanced abattoir plants to exacting specifications, ensuring cost effectiveness. Most of our meat is sourced locally within the EU and also from other regions such as New Zealand and South America.

Science and technology plays a large part in the consistent achievement of meat quality and influences Hilton's procurement of meat from large and small suppliers. Together with our retail partners we ensure that consumers have the best choice and can select on the basis of provenance, quality and price. For example, Hilton is able to focus its meat sourcing strategy on high quality pasture fed beef from Ireland and good welfare produced pork from the Netherlands, UK, Germany and Denmark where efficient production methods enable competitive prices.

Farm standards

Good quality meat can only be produced from animals reared and handled to the best animal welfare standards as freedom from stress is a fundamental requirement not only for ethical and sustainable reasons, but also to achieve consistent meat quality for consumers. In addition farmers give a lot of thought to animal nutrition not only to achieve efficient weight gain but also to meet consumer demands on flavour and fat content. Hilton works closely with its suppliers and the farming community to continually improve the cleanliness of animals presented for slaughter as this has a direct effect on the reduction of any pathogen risks associated with fresh meat.

Abattoir standards

It is well established in science that abattoir standards contribute significantly to the achievement of consistent meat quality. Hilton works closely with our retail partners to set best in class specifications ensuring humane and effective stunning and control of microbial contamination. Also pH and temperature drop is controlled according to best scientific practice. Meat is matured and boned according to clear and enforced primal specifications that are agreed between Hilton, its retail customers and abattoir suppliers. Hilton develops long term trading partnerships with our suppliers by facilitating achievement of our retail customer requirements through auditing by third party experts and development of sustainable corrective action plans where any non-conformances are identified. We support our suppliers in applying abattoir standards covering factory structure, animal welfare standards, control of contamination through cleaning and disinfection, temperature controls, carcass dressing, boning and packing standards and traceability. Auditing as a means of challenging standards is now expected by consumers together with well established procedures throughout the food chain.

Hilton continually develops and refines data collection and reporting particularly in the key area of meat raw material. Samples collected from each delivery are assessed for compliance to microbiological standards and compliance to agreed quality specifications. Results are used to assess the performance of suppliers and achieving continuous improvement.

Retail packing at Hilton

We are proud of our modern specialised meat processing and packing facilities which use state of the art production equipment, including a high degree of automation and use of robotic equipment which minimises handling.

Corporate and social responsibility report
continued

Our well trained production operatives are responsible for the quality of Hilton's retail partners' products and they are supported by highly qualified and experienced quality assurance and technical teams at each site. Hilton maintains annual third party accreditation through FSSC (Food Safety System Certification) using ISO 22000 and PAS 220 or BRC (British Retail Consortium) Issue 6 and we constantly challenge ourselves through cross auditing of hygiene and quality system standards by technical and quality managers from other Hilton sites. In addition we welcome the constant attention of our retail customers who make frequent visits to our sites; some of which are unannounced. This level of attention is a valuable part of our partnership with our retail customers and gives consumers confidence that Hilton can consistently meet their expectations.

Temperature control throughout our storage and production departments is fundamental to the quality of our products and this is centrally controlled with alarm alerts if there is any deviation from specified temperature requirements.

Specialised highly trained hygiene teams deep clean our factories every day using the latest technology and these clearly specified procedures are verified using not only trained auditors but also the latest monitoring equipment. Top quality meat from our suppliers, temperature control and high class standards of hygiene ensure that Hilton's retail partners receive product that consistently achieves agreed shelf life and meets customer expectations. All staff and visitors can only enter Hilton production facilities wearing specified personal protective clothing and by passing through barrier protected hand washing and sanitising facilities. The effectiveness of these entrance procedures are routinely verified using hand swabbing checks.

New product development is carried out in partnership with our retail customers and we pride ourselves on the kitchen facilities that Hilton has to facilitate this process of innovation and development. It is a fundamental strength of the Hilton team that a culture of sharing best practice is encouraged and developed. Technical managers from all our sites meet regularly to share experiences, agree innovation initiatives and develop processes and systems to ensure that Hilton remains at the forefront of our industry.

Graduate recruitment is fundamental to Hilton's future and our training programme includes completion of a Food Science masters degree at Bristol University following which our trained graduates are placed into key management roles. We maintain strong links with academia and technological advances through Campden BRI, Bristol University and attendance at the annual International Conference of Meat Science and Technology.

Awards and Innovation
Hilton takes great pride in its products and we are delighted when the quality and innovation of these products is recognised. During 2013 we received a number of national food and taste awards. New products were launched including skin pack steak boxes and gourmet and other oven ready and marinated products.

Environment
The Group takes all practicable steps to manage carefully its impact on the natural environment. We believe improvements to our environmental performance can make a difference to society and are committed to assessing the impacts of our operations on land, water, air and biodiversity, and to managing our waste, in all its forms, by reusing or recycling it, where practicable.

In the context of the total carbon footprint of retail packed meat, the proportion which can be influenced by Group's packing activity is very small indeed, as the Group is not involved in the breeding, growing and slaughtering of animals and the packaging formats used for its products are selected by our customers. The Group is nevertheless committed, working closely with its customers, to minimising its environmental impact.

Regulatory compliance
The Group is in full compliance with all environmental regulations, permits and consent limits which apply to each of its packing plants in each country of operation and views such compliance as a high priority, looking to make continuing improvements with respect to the environment in all its operations whilst ensuring that we manage our environmental performance in accordance with evolving legal and regulatory requirements and international standards.

Carbon footprint and greenhouse gases
The Group has complied with all the mandatory reporting requirements under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. The Group's scope 1 and scope 2 carbon footprint has been calculated using data gathered through standardised reporting channels and Defra conversion factors. An appropriate ratio to express the Group's annual emissions in relation to its activities by way of product volumes produced is given below.

	Tonnes of CO_2e
Scope 1	8,162
Scope 2	21,466
Total	29,628

	Tonnes of CO_2e per tonne of product
2013	0.13
2012	0.13
2011	0.14

Energy usage

Our processing and packing operations consume electricity, gas, water and industrial gases at all our sites and our management teams work to identify areas for further efficiency gains in terms of energy usage. The Group invests heavily in maintaining state of the art high speed packing facilities which progressively reduce energy costs per unit packed. Over time the development of packing technology means that any given volume of meat can be packed with fewer high speed lines. Performance on water usage is shown below:

	M³ of water use per tonne of product
2013	2.04
2012	2.09
2011	1.79

Waste and packaging

A degree of wastage is unavoidable in our businesses, as we have to ensure that our products continually meet stringent standards for quality and presentation. We work actively to reduce our usage of materials and the reduction of product and packaging waste has a very high priority across the Group. The yield losses incurred in processing and packing meat and packaging wastage are monitored throughout each day across the entire product range, at every Hilton site. Performance on meat yields, being the percentage by which the weight of meat purchased as raw material compares with that incorporated in finished packed meat products, is minimised by, where possible, using off-cuts in mince, burgers and other part processed meat products and by ensuring that meat purchased meets tight specifications.

Packaging is useful as it protects our products and prolongs shelf life thus reducing food waste and this benefit offsets the environmental impact of the materials and energy used in its manufacture. Hilton is committed with its retail partners to reducing packaging through use of lightweight and recyclable materials from sustainable sources.

Workplace

Health and safety

One of Hilton's top priorities is to achieve continual improvements in health and safety. The Group requires all its subsidiaries to achieve high health and safety standards within their individual operations. All subsidiaries conduct regular formal health and safety reviews. Managers and employees review policies, processes and procedures in order to ensure that risks are properly assessed, with appropriate actions taken in order to protect the safety of employees. Two members of the Board, Philip Heffer and Theo Bergman, have been assigned responsibility for health and safety and environmental matters across the Group's operational sites.

We monitor and review all incidents and accidents in the workplace so that we can take appropriate action to improve working conditions whilst remaining focused on reducing both the absolute number of accidents and the number of serious accidents. Formal reporting procedures are in place at every site so that the Group can monitor safety performance at a local level. There is a full time safety officer at each site who monitors the key measures for safety performance which include the number of serious and non-serious accidents and the number of working days lost through injury, together with short and long term sickness levels, key statistics in relation to which for 2013 are shown as follows:

	Average number of employees	Serious accidents	Recorded accidents per 100,000 hours worked	Sickness rate (%)
2013	2,243	32	6.4	4.9%
2012	2,213	26	5.5	5.3%
2011	2,181	10	6.0	5.2%

Our people

We recognise that driving our future growth and development will continue to depend on our ability to attract, grow, train and retain the very best managers and staff and to build progressively stronger teams at each location. We believe that a key to our future success lies in the promotion of properly trained, knowledgeable and capable management from within our organisation together with the ongoing motivation of our teams in each country.

The Group provides equal opportunity for employment, training and career development and promotion regardless of age, sex, colour, race, religion, ethnic origin or other minority groupings. The Group encourages the employment of disabled people when suitable vacancies are available and wherever possible retrains employees who become disabled to enable them to do work consistent with their aptitudes and abilities. Where practicable a flexible approach is adopted to assist employees to manage a successful work life balance.

Hilton operates to high standards of employment practice with policies to ensure that training, career development and promotion opportunities are available to all employees. The Group's recruitment practices involve, where possible, internal promotions. Where there is not a suitable internal candidate, selection of suitable individuals for vacant positions is made using a combination of industry knowledge and contacts and the use of external recruitment agencies. All new senior employees including Directors are given tailored induction programmes. The Group's succession planning is designed to highlight any forthcoming vacancies well in advance. Employees are able to participate directly in the success of the business by contributing to the Group's Sharesave scheme.

The Group has ethnically diverse workforces who at each location receive the same terms and conditions for comparable jobs. Given the geographical spread of the Group's operations it is both inappropriate and impractical to apply standard employee consultation and communication procedures across the Group. Each subsidiary is accordingly responsible for achieving and maintaining appropriate consultation and communication with its employees which include at all production sites joint management and employee committee meetings on health and safety and meetings with employees and union representatives to discuss issues affecting them.

The Group, in common with most commercial undertakings, employs external consultants, but, as their services could be contracted for with other similar parties, there are, in the opinion of the Board, no persons with contractual or other arrangements with the Group which are essential to its businesses.

Corporate and social responsibility report
continued

Trading relationships with partners and suppliers
Strong and fair long term relationships with partners and suppliers are very important for Hilton. The Group's approach to corporate social responsibility is reflected in the way we behave with our suppliers which is open, consistent and honest. In the UK the Group follows the Better Payment Practice Code which requires a company to agree the terms of payment with its suppliers, to ensure its suppliers are aware of those terms and to abide by them. The Group policy is also to apply the requirements of the Code in each of its subsidiaries.

Ethical standards
Hilton is committed to integrity. Ethical standards are very important in relation to the way we conduct our businesses and all the Group's employees are expected to behave ethically in their work and adhere to the Group's ethical standards. As an international group of companies we are fully aware of the broad spread of our responsibilities in all the countries in which we operate from protecting the environment to safeguarding the health and safety of our employees, respecting human rights, ensuring honesty, integrity and fairness in all our business dealings and operating our businesses in a safe and responsible manner.

A whistle-blowing policy is in place in accordance with which staff can in confidence raise any concerns about any actual or potential improprieties in relation to matters of financial reporting or any other aspect of the Group's businesses. The Group has also implemented an anti-bribery and anti-corruption policy to comply with the Bribery Act 2010.

Community
Supporting our local communities
Hilton's policy is to recruit locally based employees wherever possible in order to benefit the communities within which our plants are located. Hilton aims to play a positive role in all the communities in which it operates and we encourage employees to become involved with and support the local communities around our sites. We recognise the social impacts of our business and believe in consultation with local communities about our activities and about the safety and environmental impact of our operations.

During 2013, Hilton made charitable donations amounting to £28,640 (2012: £17,585) comprising small but regular donations made to local institutions and sponsorship of personal charitable initiatives and cultural events.

The Group seeks to be a good neighbour in all its locations. We are committed to social responsibility and believe that the success of our businesses will reflect the quality of the relationships we build with our communities and legitimate public interest groups.

Approval of Strategic report

Pages 7 to 29 of this Annual report comprises a Strategic report which has been drawn up and presented in accordance with applicable English company law, in particular Chapter 4A of the Companies Act 2006, and the liabilities of Directors in connection with this report shall be subject to the limitations and restrictions provided by such law.

It should be noted that the Strategic report has been prepared for the Group as a whole, and therefore gives greater emphasis to the Company and its subsidiaries when viewed as a composite whole.

Approved by the Board of Directors and signed on behalf of the Board.

Neil George
Company Secretary
26 March 2014

Governance

Board of Directors

Executive Directors

Robert Watson OBE
Chief Executive
Robert joined Hilton as Chief Executive in 2002 and has overseen the successful growth of the Group to date. Prior to this, he worked for the Foyle Food Group, based in Northern Ireland of which he was a founder in 1977. Robert was previously a board member of the Livestock Meat Commission and Food For Britain.

Nigel Majewski
Finance Director
Nigel was appointed as Finance Director of Hilton in 2006 following 11 years in senior finance roles with PepsiCo. Prior to that Nigel gained extensive meat industry experience in senior finance roles with Bernard Matthews plc and has also worked for Royal Dutch Shell and Whitbread. He is a qualified Chartered Accountant and has a first class honours degree in accountancy. Nigel is Chairman of the Risk Management Committee.

Philip Heffer
Chief Operating Officer
UK and Ireland
Philip joined the Hilton Food Group at its inception in 1994, as Managing Director of the Group's UK subsidiary Hilton Meats (Retail) Limited. In his current role he is responsible for Hilton's business with its major customer in the UK and Ireland. Prior to this, Philip held senior positions within the RWM Food Group. He attended Smithfield College and became an associate member of the Institute of Meat in 1984.

Theo Bergman
Chief Operating Officer
Continental Europe
Theo joined Hilton in 2000 as Managing Director of the Group's Dutch facility, Hilton Meats Zaandam and in 2003, he was appointed to the Group's Executive Board as European operations director responsible for the start up of operations in Europe and the relationship with Ahold. Prior to joining Hilton, Theo held senior logistics and general management positions with Ahold between 1987 and 2000.

Non-Executive Directors

Sir David Naish DL
Non-Executive Chairman
Sir David joined the Hilton Food Group in 2007 as a Non-Executive Director after retiring from the Chairmanship of Arla Foods UK plc and was elected Chairman in 2010. He is a past President of the National Farmers Union and is currently Chairman of his family farming business as well as a Director of Wilson Insurance Broking Group Limited and Caunton Engineering Limited and is also a Non-Executive Director of Produce Investments plc. Sir David is Chairman of the Nomination Committee.

Chris Marsh
Non-Executive Director
Chris joined the Hilton Food Group in 2007 as a Non-Executive Director. Chris is a corporate broker by background, he joined Phillips and Drew in 1968 and headed the Small Cap Corporate broking team at UBS from 1993 until his retirement in 1998. From 1999 to 2004 he was a member of a small corporate finance advisory team at the Benfield Group. Chris is currently Non-Executive Chairman of Webb Capital plc and formerly of Downing Income VCT plc. Chris is the Senior Independent Director and Chairman of the Remuneration Committee.

Colin Smith OBE
Non-Executive Director
Colin joined the Hilton Food Group in 2010 as a Non-Executive Director and has extensive experience in the food and distribution industry. A Chartered Accountant, he was at Safeway plc for 20 years as Finance Director and for the last six years as Chief Executive. Colin has previously held Chairmanships at food and agriculture businesses Assured Food Standards, Masstock Group and Blueheath Holdings plc. Until recently he was a Non-Executive Director of Poundland Holdings Limited having stepped down as Chairman after ten years in the role. He was previously a Non-Executive Director of McBride plc. Colin is Chairman of the Audit Committee.

David Naish, Chris Marsh and Colin Smith are all members of the Remuneration, Audit and Nomination Committees.

Chris Marsh and Colin Smith are considered to be independent.

Directors' report

The Directors present their Annual report and the audited consolidated financial statements for the 52 weeks ended 29 December 2013.

Principal activities
The Group's activities comprise specialist retail meat packing for international food retailers.

Strategic report
The business report has been replaced with a strategic report on pages 7 to 29 which sets out the development and performance of the Group's business during the financial year, the position of the Group at the end of the year and a description of the principal risks and uncertainties facing the Group.

Results and dividends
The profit before income tax is £24.9m (2012: £24.7m).

An interim dividend of 3.65p per ordinary share was paid in December 2013. The Directors recommend the payment of a final dividend for the period, which is not reflected in these accounts, of 9.1p per ordinary share totalling £6.6m, which, together with the interim dividend, represents 12.75p per ordinary share for the year. Subject to approval at the Annual General Meeting, the final dividend will be paid on 27 June 2014 to members on the register at the close of business on 30 May 2014. Shares will be ex dividend on 28 May 2014.

Directors and their interests
The Directors of the Company in office throughout 2013, together with their biographical details, are as set out on pages 32 and 33. All the Directors served for the whole of the year under review unless stated. Details of Directors' interests in shares are provided in the Directors' remuneration report on page 50.

Directors are subject to re-appointment at the Company's AGM following the year in which they are appointed. In accordance with the Company's Articles of Association one-third of the Board is subject to re-election at each AGM. Accordingly, Theo Bergman, Nigel Majewski and Colin Smith retire and, being eligible, offer themselves for re-election.

Substantial shareholdings
As at the date of this report, the Company is aware or has been notified of the following interests of 3% or more of the voting rights of the Company:

	Number of ordinary shares	Percentage of issued share capital	Nature of holding
Fidelity Management & Research	6,775,337	9.36%	Indirect
Aberforth Partners	6,351,159	8.80%	Indirect
AXA Investment Managers SA	4,750,000	6.58%	Indirect
G. Heffer	4,174,500	5.78%	Direct
R. Heffer	4,174,500	5.78%	Direct
FIL Investment International	2,482,171	3.44%	Indirect
Hargreave Hale	2,416,069	3.35%	Indirect

Additionally Directors' interests in shares total 10.69% and details are given on page 50.

Political donations
No donations for political purposes were made during the year (2012: £nil).

Share capital and control
The following information is given pursuant to Section 992 of the Companies Act 2006:

- the Company has one class of share being ordinary shares of 10p each which have no special rights. The holders of ordinary shares rank equally and are entitled to receive dividends and return of capital as declared and to vote at general meetings. With minor exceptions, there are no restrictions on transfers of ordinary shares.
- there are no restrictions on voting rights of ordinary shares.
- rights over ordinary shares issued under employee share schemes are exercisable directly by the employees. The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of its shares or on voting rights.
- the Company may appoint or remove a Director by an ordinary resolution of the shareholders. Additionally the Board may appoint a Director who must retire from office at the following Annual General Meeting and if eligible then stand for re-election.
- the Company's Articles may be amended by a special resolution of the shareholders.
- the Directors have general powers to manage the business and affairs of the Company. Additionally the following specific authorities were passed as resolutions at the Company's Annual General Meeting held on 15 May 2013:
  - Directors have authority to purchase up to 10% of its own shares subject to certain conditions.
  - Directors have authority, within limits, to exercise the powers of the Company to allot shares and limited authority to disapply shareholder pre-emption rights.

  Both these authorities expire on the earlier of the date of the next Annual General Meeting or 15 August 2014.
- the Company has significant long term supply agreements with customers which the customer may terminate in the event that ownership of the Company, following a takeover, passes to a third party which is not reasonably acceptable to that customer. There are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment that occurs because of a takeover bid.

Share options
Details of all options granted but not exercised or lapsed are shown in note 23 to the financial statements on page 82.

Corporate governance
The Board has applied, for the first time in 2013, the provisions of the UK Corporate Governance Code issued in September 2012. The Directors consider that the Company has during 2013 complied with the requirements of the UK Corporate Governance Code taking into account the provisions for smaller companies.

The Corporate governance statement on pages 36 to 38 includes information pursuant to DTR 7.2.

Financial instruments
The Group's risk management objectives and policy are discussed in the treasury management policies section of the Performance and financial review on page 20.

Directors' statement as to disclosure of information to auditors
The Directors who were members of the Board at the time of approving the Directors' report are listed on pages 32 and 33. Having made enquiries of fellow Directors and the Company's auditors, each of these Directors confirm that:

- to the best of each Director's knowledge and belief, there is no information relevant to the audit of which the Company's auditors are unaware; and
- each Director has taken all the steps a Director might reasonably be expected to have taken to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent auditors
PricewaterhouseCoopers LLP have expressed their willingness to continue in office and a resolution proposing their reappointment will be submitted at the Annual General Meeting.

Annual General Meeting
The Notice convening the Annual General Meeting can be found in the separate Notice of Annual General Meeting accompanying this Annual report and financial statements, and can also be found on the Company's website at www.hiltonfoodgroupplc.com/investors/agm.

By order of the Board

Neil George
Company Secretary
26 March 2014

Corporate governance statement

The UK Corporate Governance Code

The Board has prepared this report with reference to the UK Corporate Governance Code issued in September 2012 which applies to accounting periods beginning on or after 1 October 2012. The provisions of this Code can be obtained from www.frc.org.uk/corporate/ukcgcode.cfm.

This statement and the Directors' remuneration report on pages 43 to 52 detail how the Board applies the principles of good governance and best practice as set out in this UK Corporate Governance Code.

The Directors consider that the Company has during 2013 complied with the nine requirements of this Code, taking into account the provisions for smaller companies.

The Board

Membership

At the date of this report the Board consists of four Executive Directors and three Non-Executive Directors whose names, responsibilities, brief biographies and membership of Board Committees are set out on pages 32 and 33. The Directors bring strong judgement and expertise to the Board's deliberations and the Board is of sufficient size and diversity to achieve the balance of skills and experience appropriate for the requirements of the business.

Non-Executive Directors

The Non-Executive Directors include the Non-Executive Chairman and the Senior Independent Director. With the exception of the Non-Executive Chairman, who is presumed under the Code not to be independent following his appointment, the Board considers the Non-Executive Directors to be independent. The Non-Executive Directors do not participate in any of the Group's pension arrangements or in any of the Group's bonus or share option schemes. There is a clear written division of responsibilities between the Non-Executive Chairman and the Chief Executive which has been agreed by the Board.

Senior Independent Director

Chris Marsh, the Senior Independent Director, is available to shareholders as an alternative to the Non-Executive Chairman, Chief Executive and Finance Director. He ensures that he is available to meet shareholders, as required, and reports any relevant findings to the Board.

Rotation of Directors

The Company's Articles of Association provide that one-third of the Directors retire by rotation at each Annual General Meeting and that all new Directors are subject to re-appointment by shareholders at the first opportunity following their appointment. Theo Bergman, Nigel Majewski and Colin Smith retire in accordance with the Articles of Association at the forthcoming Annual General Meeting and, being eligible, each offers himself for re-election.

Directors' conflicts of interest

Under the Companies Act 2006, the Group's Directors have an obligation to avoid any situation where they have a conflict of interests. The Group has in place procedures that require all Directors to notify the Group of any conflicts of interest and, for any such conflicts of interest to be authorised by non-interested Directors, provided the Company's articles allow for this. During the current financial year the Group were not advised of nor did the Group identify any such conflicts of interest.

Information and support provided to Board members

Members of the Board and its Committees are given appropriate documentation in advance of each Board and Committee meeting. For regular Board meetings these include a detailed period report on current and forecast trading, with comparisons against both budget and prior years. For all meetings, appropriate explanatory papers are circulated well in advance on matters which the Board or Committee will be required to approve or provide responses.

The Board operates both formally through Board and Committee meetings and informally through regular contact between Directors. To assist them in carrying out their responsibilities the Directors have, in addition to full and timely access to all relevant information from management in advance of Board meetings, the right to obtain independent professional advice at the Company's expense and the advice and services of the Company Secretary to enable them to perform their duties as Directors. The Company Secretary is responsible to the Board, through the Chairman, for all governance matters. The appointment and removal of the Company Secretary is determined by the Board as a whole.

Board responsibilities

The Board is collectively responsible for promoting the success of the Group, within a framework of prudent and effective controls that enable risk to be assessed and appropriately managed. It is responsible for setting and approving the strategy and key policies of the Group and monitoring the progress towards achieving these objectives. The Board aims to enhance shareholder value by providing entrepreneurial leadership for the Group, whilst simultaneously ensuring the appropriate framework of checks and balances are maintained in place.

The Board has specific powers reserved to it contained in a schedule of matters reserved for decision by the Board which include:

- acquisitions and disposals;
- major trading agreements;
- major capital expenditure projects;
- dividends;
- treasury and risk management policies;
- approval of budgets, half-yearly and annual accounts and interim management statements; and
- the giving of any guarantees or letters of comfort.

The Board meets not less than eight times a year to direct and control the strategy and operating performance of the Group. The Board also has responsibility for setting policy and monitoring from time to time such matters as financial and risk control, health and safety policy, environmental issues and management succession and planning. The Board has delegated to the Chief Executive and the Executive Directors responsibility for the execution of the agreed strategy and budget and the day-to-day management of the Group's operations. Day-to-day decisions in relation to procurement and supply chain management, factory operations and customer liaison are delegated to the senior management teams at each operational site.

Board Committees

The Board has delegated certain responsibilities to the following Board Committees:

- Nomination Committee;
- Audit Committee;
- Remuneration Committee; and
- Risk Management Committee.

Each Board Committee operates under clearly defined terms of reference and report regularly to the Board. These terms of reference are reviewed on a regular basis with any revisions proposed to the Board for its approval. The Board ensures that each Committee has sufficient resources to undertake their duties including access to the Company Secretary and external advisors as appropriate.

Reports for each Board Committee are included on pages 39 to 52.

Meeting attendance

The following table sets out the Board and Committee meeting attendance by Board members, including the maximum number of meetings which could have been attended.

	Board	Audit Committee	Remuneration Committee	Nomination Committee	Risk Management Committee
Number of meetings	11	5	4	1	9
R. Watson	10				
P. Heffer	9				
T. Bergman	11				
N. Majewski	11	5			9
D. Naish	11	4	4	1	
C. Marsh	10	4	4	1	
C. Smith	10	5	4	1	

Performance evaluation

The Non-Executive Chairman leads a formal annual performance evaluation of the Board and its standing Committees and meets with the Non-Executive Directors at least once a year to convey his conclusions. During 2013 an internal evaluation process involved each Director completing a detailed written questionnaire including the opportunity to comment on any issue not directly covered by the questionnaire. The responses were analysed and considered by the Board who have concluded that the Directors, the Board and its standing Committees continue to perform effectively. The Non-Executive Directors met once during the year without the Non-Executive Chairman present in order to evaluate his performance.

Shareholder communications

The Board promotes open communication with shareholders. The Chief Executive and Finance Director meet regularly and have dialogue with institutional shareholders both to discuss the Group's performance and prospects and to develop an understanding of their views which are relayed back to the Board. The Board's current assessment of the Group's position and prospects are set out in the Strategic report on pages 7 to 29. Twice a year general presentations are given to analysts covering the annual and half-year results and other reports and forecasts, together with relevant articles in the financial press, are circulated to the Board.

The other Executive Directors are available to meet the Company's major shareholders if required and the Senior Independent Director is available to listen to the views of shareholders, should they have concerns which have not been previously resolved or which it was inappropriate to voice at prior meetings. All shareholders have the opportunity to ask questions at the Company's Annual General Meeting, which all Directors and the Chairmen of every Board Committee attend. In addition, the Group's website containing published information and press releases can be found at www.hiltonfoodgroupplc.com.

Risk management and internal control

The Board of Directors has overall responsibility for the Group's systems of internal control including financial, operational and compliance controls and risk management which operate to safeguard the shareholders' investments and the Group's assets and for reviewing their continuing effectiveness. Such an internal control system can only provide reasonable and not absolute assurance against material misstatement or loss as it is designed to manage rather than eliminate risk and failure to meet business objectives.

Corporate governance statement
continued

The Group operates within a clearly defined organisational structure with established responsibilities, authorities and reporting lines to the Board. The organisational structure is designed to plan, execute, monitor and control the Group's objectives effectively and ensure internal control becomes integral to all the Group's operations. The Board confirms that the Group's internal risk based control systems have been fully operative up to the date of the Annual report being approved, key ongoing processes and features of which are set out below:

- appropriate mechanisms to identify and evaluate business risk;
- a Group internal audit function which is involved in the review and testing of the internal control systems and of key risks across the Group in accordance with an annual programme agreed with the Audit Committee;
- a strong control environment;
- an information and communication process; and
- a monitoring system and regular Board reviews for effectiveness.

The Group's planning and financial reporting procedures include detailed budgets and a three year strategic plan which are approved by the Board. Periodic management accounts report performance compared to the budget and additionally forecasts are updated through the year. These management accounts together with half-yearly and annual accounts produced by the Group's subsidiary companies are reviewed together with the methodology used for consolidating these into the periodical, half-yearly and annual accounts. All financial information published by the Group is approved by the Board and Audit Committee.

The Finance Director and Group Financial Controller are responsible for overseeing the Group's internal controls. The management of the Group's businesses have identified the key business risks within their operations, considered their financial implications and assessed the effectiveness of the control processes in place to mitigate these risks. The Board has reviewed a summary of these findings and this, together with its direct involvement in the strategies of the business, investment appraisal and budgeting processes, has enabled the Board to report on the effectiveness of the Group's internal control systems, which comply with the Turnbull Guidance.

Auditor independence

The Board is satisfied that PricewaterhouseCoopers LLP has adequate policies, processes and safeguards in place, including partner rotation designed to ensure that auditor objectivity and independence is maintained. The Company meets its obligations for maintaining the appropriate relationship with the external auditors through the Audit Committee whose terms of reference include an obligation to consider and keep under continuing review the degree of work undertaken by the external auditors, other than the statutory audit, so as to ensure such objectivity and independence is safeguarded. Details of fees for non-audit work are set out in note 6 on page 72 of the financial statements.

By order of the Board

Neil George
Company Secretary
26 March 2014

Report of the Audit Committee

Chairman's introduction

I am pleased to report on the activities of the Audit Committee for the 52 weeks ended 29 December 2013.

Role of the Committee

The Audit Committee is established by the Board of Directors and terms of reference formalises its roles, tasks and responsibilities to comply with the UK Corporate Governance Code and to achieve best practice. The Committee terms of reference are available and can be found on the Company's website at www.hiltonfoodgroupplc.com.

The Committee meets at least three times per year.

Membership of the Committee

Members of the Committee are appointed by the Board on the recommendation of the Nomination Committee and comprise the Chairman of the Committee and at least two members who are the Chairman of the Board and the Independent Non-Executive Directors. At least one member has recent and relevant financial experience and between them have a wide experience of industry and commerce.

Other individuals such as the Chief Executive, Finance Director, Internal Auditor and the external auditors may be invited to attend meetings. The external auditors and the Internal Auditor have the opportunity for direct access to the Committee without the Executive Directors being present.

Responsibilities of the Committee

The main responsibilities of the Audit Committee which are contained in the UK Corporate Governance Code and also in the Committee's terms of reference are:

- to monitor the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance, reviewing significant financial reporting judgements contained in them;
- to review the Company's internal financial controls and to review the Company's internal control and risk management systems;
- to monitor and review the effectiveness of the Company's internal audit function;
- to make recommendations to the Board, for it to put to the shareholders for their approval in general meeting, in relation to the appointment, re-appointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor;
- to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements;
- to develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm; and to report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken; and
- to report to the Board on how it has discharged its responsibilities.

How the Committee has discharged its responsibilities

During 2013 the Committee met five times at appropriate intervals in the financial reporting and audit cycles. Attendance at these meetings is set out on page 37.

The work of the Committee during the year focused on the key areas set out below.

Monitoring the integrity of the Financial Statements including significant judgements

The Group's accounting policies were reviewed and it was considered that there were no critical accounting estimates or judgements in their application.

The Committee reviewed half and full year financial reports including the application of accounting policies, estimates and judgements in their preparation, the clarity and completeness of the disclosures and also held discussions with management and the external auditors. The Annual report and financial statements were, taken as a whole, considered to be fair, balanced and understandable and provide the information necessary for shareholders to assess the Group and Company's performance, business model and strategy. The Committee considered and concluded that the Group should be considered as a going concern. Thereafter the Committee recommended that the Board approve these financial reports for publication and that the letter of representation to the external auditors be signed.

Risk management and internal controls

During the year the Internal Auditor reported to the Committee on the internal audit work performed which included compliance with the Bribery Act and saw continuing improvement across the Group's operations and on key focus areas for future work. The Group's Risk Register was also updated. The Committee concluded that the internal audit function remains effective.

A review of whistle-blowing showed that no employees had raised any concerns about possible wrongdoing in financial reporting or other matters.

The Committee reviewed and updated the Group's hedging strategies with the objective of reducing volatility and identifying and reducing risks whilst maintaining transparency.

The Committee evaluated the risks associated with the Group's new Australian joint venture.

Report of the Audit Committee

continued

External audit

The Committee oversees the relationship with, and the performance of, the external auditors. Meetings were held before the audit to agree their audit plan and after their audit work to discuss their key audit findings.

The current external auditors were appointed in 2007. Their lead partner is rotated every five years to ensure continued objectivity and independence. Hilton is not subject to the provision in the UK Corporate Governance Code that the external audit contract should be put out to tender at least every ten years.

The Committee continues to be satisfied with the performance of PricewaterhouseCoopers LLP and have therefore recommended to the Board that they should continue as the Group's auditors at the forthcoming Annual General Meeting.

The Committee reviewed a letter received from the external auditors confirming their independence as required.

Non-audit fees

Hilton has implemented a policy on the use of external auditors for non-audit services designed to preserve the independence of the external auditors. This policy categorises non-audit services into (i) continuing services which the Committee permits external auditors to undertake subject to a price cap, (ii) irregular or significant services requiring Committee approval on a case by case basis and (iii) non-permitted services.

The level of non-audit fees was reviewed which in 2013 at £71,000 decreased to 28% of audit fees. The Committee considers that this low level of non-audit fees does not affect the independence of the external auditors.

Other

The Committee terms of reference were updated during the year reflecting changes in legislation and the UK Corporate Governance Code.

Conclusion

The Committee considers that the work performed as detailed above demonstrates that the Committee continues to operate effectively and discharges its responsibilities.

I will be available to shareholders at the forthcoming Annual General Meeting to respond to any questions relating to the work of the Committee.

On behalf of the Audit Committee

Colin Smith OBE
Chairman
26 March 2014

Report of the Nomination Committee

Chairman's introduction
I am pleased to report on the activities of the Nomination Committee for the 52 weeks ended 29 December 2013.

Role of the Committee
The Nomination Committee is established by the Board of Directors and terms of reference formalises its roles, tasks and responsibilities to comply with the UK Corporate Governance Code and to achieve best practice. The Committee terms of reference are available and can be found on the Company's website at www.hiltonfoodgroupplc.com. The Nomination Committee leads the process for Board appointments.

The Committee meets on an as required basis.

Membership of the Committee
Members of the Committee comprise all the Non-Executive Directors.

Responsibilities of the Committee
The main responsibilities of the Nomination Committee which are contained in the UK Corporate Governance Code and also in the Committee's terms of reference are:

– to review the structure, size and composition of the Board including skills, knowledge, experience and diversity (including gender) and make recommendations to the Board with regard to any changes;

– to give consideration to succession planning for Directors and other senior executives and identify appropriate candidates for the approval of the Board;

– to oversee new appointments to the Board;

– to review the results of the Board performance evaluation relating to the composition of the Board; and

– to review the time requirements of Non-Executive Directors.

How the Committee has discharged its responsibilities
During 2013 the Committee met once in a continuing stable environment where it did not need to consider any new appointments. The Chairman has discussions with each Director to review and agree their training and development needs.

The Committee terms of reference were updated during the year following a review.

Conclusion
The Committee considers that the work performed as detailed above demonstrates that the Committee continues to operate effectively and discharges its responsibilities.

I will be available to shareholders at the forthcoming Annual General Meeting to respond to any questions relating to the work of the Committee.

On behalf of the Nomination Committee

Sir David Naish DL
Chairman
26 March 2014

Report of the Risk Management Committee

Chairman's introduction
I am pleased to report on the activities of the Risk Management Committee for the 52 weeks ended 29 December 2013.

Role of the Committee
The Risk Management Committee is established by the Board of Directors and terms of reference formalises its roles, tasks and responsibilities to comply with the UK Corporate Governance Code and to achieve best practice. It seeks to focus and co-ordinate risk management activities throughout the Group in order to facilitate the identification, evaluation and management of key business risks.

The Committee meets at least six times per year.

Membership of the Committee
Members of the Committee are appointed by the Board and comprise the subsidiary company operations managers, the Group Internal Auditor, the Group IT manager and other personnel throughout the Group as required.

Responsibilities of the Committee
The main responsibilities of the Risk Management Committee are:

- to raise the level of management awareness of and accountability for risks faced by the business;
- to embed risk management into the Group culture;
- to provide a mechanism for risk management issues to be discussed and disseminated; and
- to provide advice on the co-ordination of risk management strategies across the Group ensuring they receive the appropriate level of sponsorship and support.

How the Committee has discharged its responsibilities
During 2013 the Committee met nine times and focused on the key areas set out below:

- Monitoring, identification and evaluation of potential risks to all the Hilton businesses;
- Planning and preparation for ISO 22301 Business Continuity Management Systems; and
- A protocol on sister site support in the event of business interruption to a particular operating unit to include identification of available capacity and the establishment of central labelling facilities.

The Committee terms of reference were updated during the year following a review.

Conclusion
The Committee considers that the work performed as detailed above demonstrates that the Committee continues to operate effectively and discharges its responsibilities.

I will be available to shareholders at the forthcoming Annual General Meeting to respond to any questions relating to the work of the Committee.

On behalf of the Risk Management Committee

Nigel Majewski
Chairman
26 March 2014

Directors' remuneration report

Chairman's introduction

I am pleased, as Chairman of the Remuneration Committee, to present the Directors' remuneration report for the 52 weeks ended 29 December 2013.

Role of the Committee

Remuneration policy is delegated by the Board to the Remuneration Committee established by the Board of Directors. Terms of reference formalises its roles, tasks and responsibilities to comply with the UK Corporate Governance Code and to achieve best practice. The Committee's terms of reference are available and can be found on the Company's website at www.hiltonfoodgroupplc.com.

The Committee meets at least twice per year.

Membership of the Committee

Members of the Committee are appointed by the Board on the recommendation of the Nomination Committee and in consultation with the Chairman of the Remuneration Committee. The Committee comprises the Non-Executive Directors (Chris Marsh and Colin Smith) and the Non-Executive Chairman of the Board (Sir David Naish) who was considered to be independent on appointment.

Other individuals such as the Chief Executive and external advisors may be invited by the Committee to attend meetings as and when required.

Responsibilities of the Committee

The main responsibilities of the Remuneration Committee which are contained in the UK Corporate Governance Code and also in the Committee's terms of reference are:

- setting the remuneration policy for all Executive Directors and the Company's Non-Executive Chairman;
- approving the design of, and determining the targets for, any performance-related pay schemes operated by the Company and to approve the aggregate annual payments made under such schemes;
- reviewing the design of all share incentive plans for approval by the Board and shareholders; and
- recommending and monitoring the level and structure of remuneration for senior management.

Directors' remuneration major decisions and substantial changes

The Committee made the following major decisions during the year:

Basic salaries: Following a review of Company and individual performance, changes in responsibility and levels of increase for the broader UK employee population the Committee agreed an Executive Director basic salary increase of 3.5% effective from 1 January 2014.

Pension: In recognition of recent changes to pension rules it was decided that in certain circumstances a salary supplement may be paid to an Executive Director in lieu of making a pension contribution to their money purchase pension schemes.

Annual bonus for Executive Directors: A 2013 non-financial metric award of 15% of salary was granted out of a maximum of 20% of salary reflecting the strong strategic progress achieved by the Company during 2013. Under the financial metric 26% of salary is payable reflecting the increase in actual net income in 2013 from the 2012 net income. The 2014 Executive Director bonus scheme financial element will have a threshold award of 20% for achieving the 2013 actual net income level rising to 105% for performance of at least 115% of 2014 budgeted net income. A further non-financial element of up to 20% of salary will remain available based on individual achievement against personal and strategic targets aggregating to a 125% maximum bonus opportunity for the Executive Directors.

Long term incentive schemes: The performance condition attaching to the 2010 share option grant under the Executive Share Option Scheme required EPS growth in excess of RPI plus 3% per annum for the three years to the end of 2012. Actual EPS growth was 3.3% in excess of RPI and thus 100% of the share options vested. During 2013 a grant of nil cost options under the Long Term Incentive Scheme was approved with vesting subject to an EPS performance condition. Threshold performance is EPS growth of 5% per annum where 25% of the options will vest rising to EPS growth of at least 10% per annum where 100% of the options will vest. The EPS threshold and maximum growth hurdles were adjusted from 6% to 5% and from 14.5% to 10% respectively reflecting the current challenging macro-economic conditions. The Committee considered that the revised EPS growth hurdles are as challenging as the previous targets in the current circumstances. There will be a further invitation under Hilton's Sharesave Scheme in 2014.

External advisors

The Committee has appointed New Bridge Street (part of Aon plc) to provide advice on remuneration matters and are satisfied that such advice is objective and independent. The amount paid for these services during the year amounted to £9,737 and no other services to the Company are provided.

Share scheme dilution limits

The Company applies established good governance restrictions over the issue of new shares under all its share schemes of 10% in 10 years and 5% in 10 years for discretionary schemes. As at 29 December 2013 the headroom available under these limits was 4.1% and 0% respectively.

Statement of voting at annual general meeting

This Directors' remuneration report is subject to a non-binding resolution at each AGM. The resolution to approve the 2012 Remuneration report was unanimously passed on a show of hands at the previous AGM. The proxy vote was as follows:

Votes for	%	Votes against	%	Votes withheld
35,894,107	98.3	621,034	1.7	389,165

Directors' remuneration report
continued

Directors' remuneration policy

The policy below which reflects current practice will be subject to a binding shareholder vote at, and formally take effect from the date of, the 2014 Annual General Meeting. The policy will be subject to further binding votes every three years or sooner where any changes are made. The Committee considers that the Group's remuneration policies should encourage a strong performance culture and emphasise long term shareholder value creation in order to be aligned with its shareholders' interests. The following table summarises all elements of pay which make up the total remuneration opportunity for Directors, and details how each element is operated and links to the Company's strategy.

Element	Purpose and link to strategy	Operation	Maximum opportunity
Basic salary	To recruit and reward executives of a suitable calibre for the role and duties required	Normally reviewed annually by the Committee with effect from 1 January, taking account of Company performance, individual performance, changes in responsibility and levels of increase for the broader UK employee population (or their local market where relevant). Reference is also made to median levels within relevant FTSE and industry comparators. The Committee considers the impact of any basic salary increase on the total remuneration package.	There is no prescribed maximum annual increase. The Committee is guided by the general increase for the broader UK employee population (or their local market where relevant) but on occasions may need to recognise, for example, development in roles assigned, change in responsibility, and/or specific retention issues.
Benefits	To provide market competitive benefits to ensure the retention of employees	The Company typically provides: – Company car and fuel; – Private healthcare; and – Other ancillary benefits, including relocation expenses (as required).	Value of benefits is based on the cost to the Company and is not pre-determined.
Pension	To provide adequate retirement benefits	Employer contributions are made to money purchase pension schemes at the rates set out in Executive Directors' service contracts. In certain circumstances a salary supplement may be paid in lieu of such pension contributions.	Up to 15% of basic salary for R. Watson, P. Heffer and N. Majewski and for T. Bergman up to 24% of basic salary, holiday allowance and bonus (in compliance with a legacy arrangement).
Annual bonus	To encourage and reward delivery of the Company's operational objectives	The annual bonus scheme for Executive Directors is based on performance against the following metrics: – Financial element based on achieving financial targets including the Group net income level adjusted for exceptional items; and – Non-financial element based on individual Executive Director achievement against personal and strategic targets. There are no deferred elements. Any bonus paid is subject to claw-back in circumstances of exceptional misstatement or misconduct.	Up to 125% of basic salary.

Element	Purpose and link to strategy	Operation	Maximum opportunity
Long term incentives	To encourage and reward delivery of the Company's strategic objectives and provide alignment with its shareholders' interests through the use of share option schemes	Under its Long Term Incentive Plan (LTIP) Hilton makes an annual award of conditional shares or nil cost options. Awards are granted subject to continued employment and satisfaction of challenging performance conditions measured over three years to be satisfied by the issue of new shares or transfer of existing shares. An Employee Benefit Trust has been set up in connection with this plan. Awards granted under the current policy are subject to the achievement of EPS performance targets determined at the date of grant with 25% vesting at threshold performance. Awards are subject to claw-back for three years following vesting in circumstances of material misstatement, error or misconduct.	100% of salary for all Executive Directors, but in exceptional circumstances such as recruitment or retention, the limit may be increased to 200% of salary.
		There are no plans to grant further options under Hilton's Executive Share Option Scheme (ESOS) in the foreseeable future although the ability to do so is retained as an alternative to LTIP awards. Any grants would be subject to performance conditions determined prior to grant.	The same ESOS maximum opportunity as for LTIP above.
All employee share schemes	To encourage employee share ownership and thereby increase their alignment with shareholders	All employees are eligible to join Hilton's Sharesave Scheme (HMRC approved for the UK and Ireland) and make regular savings for a three year period following which they have six months to exercise the options granted. No performance conditions attach to options granted under the Scheme.	Maximum savings up to the UK statutory limit.
Non-Executive Director fees	To attract and retain a high-calibre Non-Executive Chairman and Non-Executive Directors by offering a market competitive fee level	The Non-Executive Directors receive the fees set out in their letters of appointment. A base fee is augmented for Committee Chairmanship or membership to take into account the additional time commitment and responsibilities associated with those committees. Non-Executive Director remuneration is determined by the Non-Executive Chairman and the Executive Directors. The Non-Executive Chairman's remuneration is determined by the Remuneration Committee.	As for the Executive Directors, there is no prescribed maximum annual increase. The Committee is guided by the general increase for the broader UK employee population but on occasions may need to recognise, for example, change in responsibility, and/or time commitments.

Notes

1. The remuneration policy for the Executive Directors is designed with regard to the policy for employees across the Group as a whole. For example, the Committee takes into account the general base salary increase for the broader UK employee population when determining the annual salary review for the Executive Directors. There are some differences in the structure of the remuneration policy for the Executive Directors and other senior employees, which the Remuneration Committee believes are necessary to reflect the different levels of responsibility of employees across the Company. The key differences in remuneration policy between the Executive Directors and employees across the Group are the increased emphasis on performance related pay and the inclusion of a share based long term incentive plan for Executive Directors. There is a lower aggregate incentive quantum at below executive level with levels driven by market comparatives and the impact of the role. Long term incentives are not provided outside of the most senior executives as they are reserved for those anticipated as having the greatest potential to influence Group levels of performance.
2. The choice of the annual bonus financial element based on net income metric aligns the bonus for a given year to the overall financial performance for that year. Threshold performance is at the previous year net income thereafter on a sliding scale with the maximum bonus paid at a stretching margin above current year budgeted net income.
3. The long term incentive EPS metric was chosen as it aligns the incentive with long term returns to shareholders.
4. Long term incentive and sharesave schemes are operated in accordance with their respective Scheme and other rules under which the Committee has some discretion relating to their administration which is consistent with market practice. Under the LTIP such discretion covers:
   - treatment of awards in the event of good leavers (including determination of good leaver status), death and intervening events (including variations in capital and change of control) which address vesting date, exercise period and reduction in number of vesting options;
   - in exceptional circumstances such as recruitment or retention the grant limit may be increased to 200% of salary;
   - minor alterations to benefit the plan administration, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment; and
   - where an event has occurred such that it would be appropriate to amend the performance condition so long as the altered performance condition is not materially less difficult to satisfy.

Directors' remuneration report
continued

Other policy information

Element	Description
Non-UK based Directors and foreign currency translation	Directors may be employed who are based outside of the UK and therefore subject to the employment laws and accepted practice for that country which may be different to those in the UK. The Committee will ensure that any future overseas based Directors are remunerated on an equivalent basis as in the UK albeit that it may be necessary to satisfy local statutory requirements. Remuneration to T. Bergman is paid in Euro which, for disclosure purposes, is translated into Sterling at the average exchange rate for the relevant year.
Share ownership	The Directors' current shareholdings total 10.69% of the Company's shares. The Committee considers these shareholdings to be significant and is sufficient to align their interests to the longer term performance of the Company such that no additional guideline is necessary.
Approach to recruitment	The remuneration package for a new Executive Director would be set in accordance with the terms of the Company's approved remuneration policy in force at the time of appointment. For the appointment of a new Chairman or Non-Executive Director, the fee arrangement would be set in accordance with the approved remuneration policy in force at that time. The salary for a new Executive Director may be set below the normal market rate, with phased increases over the first few years as the Executive Director gains experience in their new role. The Committee may offer additional cash and/or share-based elements when it considers these to be in the best interests of the Company and its shareholders. Such payments would reflect and be limited to remuneration relinquished when leaving the former employer and would reflect (as far as possible) the nature and time horizons attaching to that remuneration and the impact of any performance conditions. Shareholders will be informed of any such payments at the time of appointment. For an internal Executive Director appointment, any variable pay element awarded in respect of the prior role will be allowed to pay out according to its terms. In addition, any other ongoing remuneration obligations existing prior to appointment may continue. For external and internal Executive Director appointments, the Committee may agree that the Company will meet certain relocation expenses where appropriate.
Payment for loss of office	Payments for loss of office are made in accordance with the terms of the Directors' service contracts as below. In accordance with its terms of reference the Committee ensures that contractual terms on termination, and any payments made, are fair to the individual, and the Company, that failure is not rewarded and that the duty to mitigate loss is fully recognised.
Consideration of shareholder views	The Committee is always interested in shareholder views and is committed to an open dialogue. All feedback is considered when making policy decisions. The Committee will seek to engage with major shareholders on any proposed significant changes to its remuneration policies.
Consideration of employment conditions elsewhere in the Group	The Committee takes into account the general employment reward packages of employees across the Group when setting policy for Executive Director remuneration. Employees have not previously been actively consulted on Director remuneration policies but this may be considered in future where appropriate.

Director service contract and other relevant information

Provision	Executive Directors	Non-Executive Directors
Term	All appointed 24 April 2007 with no fixed term	Sir David Naish and Chris Marsh 3 years from 27 March 2013 Colin Smith 3 years from 1 October 2013
Re-election at AGM	Every 3 years	Every 3 years
Notice period	12 months for both Company and Director	6 months for both Company and Director
Termination payment / payments in lieu of notice	Up to 12 months' salary in lieu of notice. If a claim is made against the Company in relation to a termination (e.g. for unfair dismissal), the Committee retains the right to make an appropriate payment in settlement of such claims as considered in the best interests of the Company. Additional payments in connection with any statutory entitlements (e.g. in relation to redundancy) may be made as required.	None
Remuneration entitlements	On termination no bonus is payable and outstanding share awards will lapse unless the Committee determines good leaver circumstances apply. In good leaver circumstances and subject to performance conditions a pro-rata bonus may be payable at the Company's discretion. Outstanding share awards may vest subject to time pro-rating and the performance conditions being satisfied.	None
Change of control	There are no enhanced terms in relation to a change of control.	There are no enhanced terms in relation to a change of control

Legacy arrangements

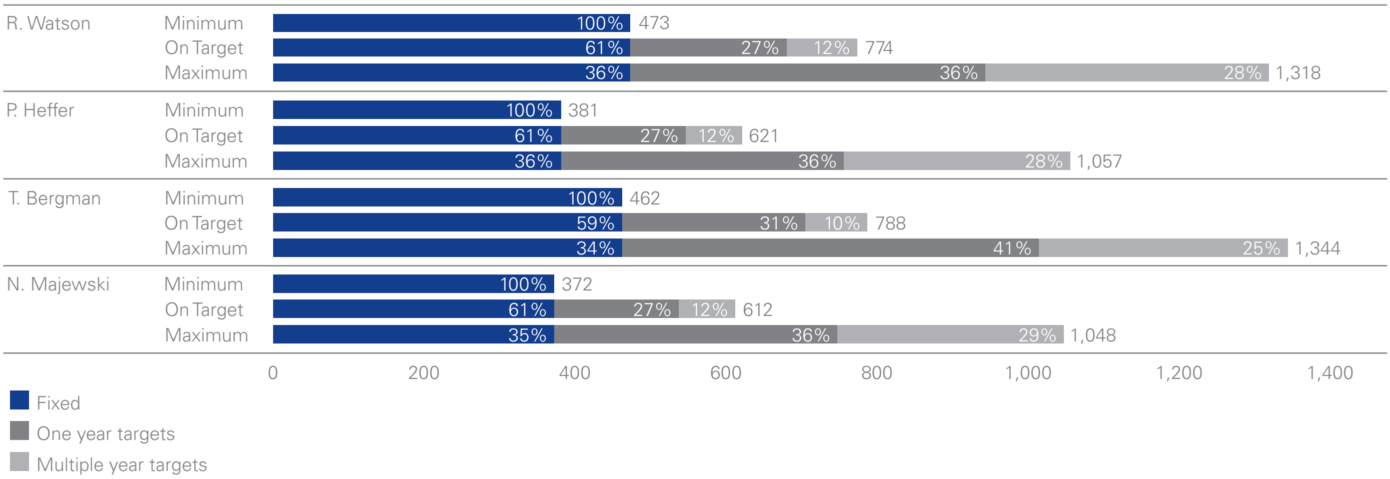
For the avoidance of doubt, in approving this policy report, authority is given to the Company to honour any commitments entered into with current or former Directors (such as the payment of a pension or the unwinding of legacy share schemes) that have been disclosed to shareholders in previous remuneration reports. Details of any payments to former Directors will be set out in the annual remuneration report as they arise.

Remuneration paid to T. Bergman is subject to Dutch laws and accepted practices. The Dutch Minimum Wages and the Minimum Holiday Allowance Act provides that an employer is obliged to pay a holiday allowance equal to a certain percentage, currently 8%, of the employee's basic salary. In the UK such holiday allowance is generally included within the employee basic salary. Additionally the terms of the Dutch industry specific pension scheme, to which Mr Bergman has belonged since before the acquisition by Hilton of the Dutch business, currently stipulate that the pension percentage contribution is applied to basic salary, holiday allowance and bonus although this may be subject to change in the future.

Directors' remuneration report
continued

Illustration of future application of remuneration policy
The chart below illustrates 2014 Executive Directors' remuneration at different levels of performance under the remuneration policy.

2014 Director remuneration illustration £'000



Notes
1. Fixed elements of pay comprise salary and fees, benefits and pension. For T. Bergman the holiday allowance is included in the fixed element but the bonus related pension is excluded from the fixed element and is included in the one year target accordingly. Salary and fees include known increases, benefits are included at 2013 levels and pension is calculated at the approved percentage rates.
2. One year targets represent the annual bonus and for T. Bergman the related pension. The minimum scenario assumes no bonus on the basis that threshold is not reached, the on target scenario assumes an aggregate 55% of salary bonus, and the maximum scenario assumes the full 125% bonus.
3. Multiple year targets comprise long term incentives. The minimum scenario assumes that threshold performance is not reached with no awards vesting, the on target scenario is at threshold performance with 25% of the awards vesting and the maximum scenario reflects the maximum performance with 100% of the awards vesting.

Annual report on remuneration

This section is subject to audit.

Single total figure table of remuneration

The remuneration of individual Directors is set out below.

	52 weeks to 29 December 2013					
	Salary and fees £'000	Benefits £'000	Annual bonus £'000	Long term incentive £'000	Pension £'000	Total £'000
Executive Directors						
R. Watson	363	41	151	–	55	610
P. Heffer	290	35	121	–	44	490
T. Bergman	344	21	133	–	108	606
N. Majewski	290	27	121	–	25	463
Non-Executive Directors						
D. Naish	90	–	–	–	–	90
C. Marsh	50	–	–	–	–	50
C. Smith	50	–	–	–	–	50
Total	1,477	124	526	–	232	2,359

	52 weeks to 30 December 2012					
	Salary and fees £'000	Benefits £'000	Annual bonus £'000	Long term incentive £'000	Pension £'000	Total £'000
Executive Directors						
R. Watson	353	41	35	140	24	593
C. Patten	423	40	–	8	10	481
P. Heffer	282	35	28	112	20	477
T. Bergman	313	21	29	121	78	562
N. Majewski	282	25	28	112	11	458
Non-Executive Directors						
D. Naish	80	–	–	–	–	80
C. Marsh	45	–	–	–	–	45
C. Smith	45	–	–	–	–	45
Total	1,823	162	120	493	143	2,741

Notes

1. Salary and fees

2013 salaries reflect a 3% increase on 2012. The salary disclosed in respect of T. Bergman includes an 8% holiday allowance.

2. Annual bonus

Under the 2013 annual bonus financial element formula, threshold performance was 2012 net income £17.6m, achievement of which earned a 21.5% of salary bonus. Thereafter the bonus was calculated on a sliding scale including a 41% of salary bonus for achieving the 2013 budgeted net income level of £18.8m up to a maximum 80% of salary bonus for achieving the stretch target of 115% of 2013 budgeted net income being £21.6m. A non-financial element bonus of up to 20% was available aggregating to a 100% maximum bonus opportunity.

Actual 2013 net income was £17.8m or 94.7% of 2013 budgeted net income resulting in a financial element bonus of 26.6% of salary. The Committee considered that excellent strategic progress had been made in difficult trading conditions and accordingly awarded a 15% of salary non-financial metric bonus out of a potential 20% of salary. Therefore a total bonus of 41.6% of salary is payable for the year to each Executive Director.

In 2012 the threshold net income was not achieved and so no financial element bonus was paid. 10% of salary was paid to each Executive Director in respect of the non-financial metric in view of considerable progress made.

3. Long term incentive

Long term incentives comprise the number of share options under the Company's share plans where the achievement of performance targets ended in the year multiplied by the difference between the share price on the date of vesting and the exercise price.

There were no long term incentive awards that were due to vest dependent on a performance period ending in 2013.

In 2012 share options under the Executive Share Option Scheme achieved the EPS performance hurdle of RPI plus 3% per year resulting in 100% vesting.

4. Pension

As disclosed in Hilton's 2012 Annual Report it was decided that contributions would be increased for 2013 to 15% of basic salary for R. Watson, P. Heffer and N. Majewski from 7%; contributions for T. Bergman which are based on basic salary, holiday allowance and bonus were increased from 20% to 24%.

5. Payments to past directors

No payments were made to former directors in 2013 or 2012.

6. Payments for loss of office

No payments for loss of office were made during 2013.

In 2012 Colin Patten received a termination payment of £282,000 comprising one year's salary in line with his service contract which is included in his salary amount as above. There are no additional payments due to Colin Patten.

Directors' remuneration report
continued

Director shareholding and share interests

Details of Director shareholdings and changes in outstanding share awards were as follows:

Director	Type	At 30 December 2012	Granted (note 4)	Exercised	At 29 December 2013	Exercise price (pence)	Earliest exercise date	Latest exercise date	Notes
R. Watson	Shares	3,266,380			3,016,380				1
	Share options	150,376	–	(150,376)	–	199.50	12.05.11	12.05.18	2
	Share options	180,258	–	–	180,258	174.75	01.05.12	01.05.19	2
	Share options	130,610	–	–	130,610	246.00	10.05.13	10.05.20	2
	Total share options	461,244	–	(150,376)	310,868				
	Nil cost options	141,585	–	–	141,585	nil	26.06.15	26.06.22	3(a)
	Nil cost options	–	102,288	–	102,288	nil	08.05.16	08.05.23	3(b)
	Total nil cost options	141,585	102,288	–	243,873				
P. Heffer	Shares	4,181,030			4,181,030				1
	Share options	120,301	–	–	120,301	199.50	12.05.11	12.05.18	2
	Share options	144,206	–	–	144,206	174.75	01.05.12	01.05.19	2
	Share options	104,488	–	–	104,488	246.00	10.05.13	10.05.20	2
	Total share options	368,995	–	–	368,995				
	Nil cost options	113,268	–	–	113,268	nil	26.06.15	26.06.22	3(a)
	Nil cost options	–	81,830	–	81,830	nil	08.05.16	08.05.23	3(b)
	Total nil cost options	113,268	81,830	–	195,098				
T. Bergman	Shares	328,333			328,333				1
	Share options	120,301	–	(120,301)	–	199.50	12.05.11	12.05.18	2
	Share options	154,751	–	(154,751)	–	174.75	01.05.12	01.05.19	2
	Share options	113,610	–	–	113,610	246.00	10.05.13	10.05.20	2
	Total share options	388,662	–	(275,052)	113,610				
	Nil cost options	119,437	–	–	119,437	nil	26.06.15	26.06.22	3(a)
	Nil cost options	–	88,374	–	88,374	nil	08.05.16	08.05.23	3(b)
	Total nil cost options	119,437	88,374	–	207,811				
N. Majewski	Shares	19,863			57,599				1
	Share options	120,301	–	–	120,301	199.50	12.05.11	12.05.18	2
	Share options	144,206	–	(144,206)	–	174.75	01.05.12	01.05.19	2
	Share options	104,488	–	–	104,488	246.00	10.05.13	10.05.20	2
	Total share options	368,995	–	(144,206)	224,789				
	Nil cost options	113,268	–	–	113,268	nil	26.06.15	26.06.22	3(a)
	Nil cost options	–	81,830	–	81,830	nil	08.05.16	08.05.23	3(b)
	Total nil cost options	113,268	81,830	–	195,098				
D. Naish	Shares	55,000			55,000				1
C. Marsh	Shares	30,000			30,000				1
C. Smith	Shares	50,000			30,000				

Notes

1. There is no requirement for Directors to hold shares in the Company. All shares are beneficially owned with the exception of 1,280,917 shares held by various family trusts of which R. Watson is a trustee. Additionally 750,000 shares held by R. Watson have been pledged as security on a personal loan. There have been no other changes in the interests of Directors between 29 December 2013 and the date of this report.
2. Executive Share Option Scheme awards which have vested.
3. Nil cost options granted under the Long Term Incentive Plan which are subject to a performance condition of compound growth in the Group's earnings per share over three years.
   a) Awards vest on a sliding scale between 25% for 6% EPS compound annual growth and 100% for at least 14.5% EPS compound annual growth.
   b) Awards vest on a sliding scale between 25% for 5% EPS compound annual growth and 100% for at least 10% EPS compound annual growth.
4. Face value of the awards granted in the year were R. Watson £363,122, P. Heffer £290,498, T. Bergman £313,726 and N. Majewski £290,498.

Further information

Statement of implementation of remuneration policy in the 2014 financial year

Base salaries

For 2014 salaries for Executive Directors have increased by 3.5% and are disclosed below.

	2013 £'000	2014 £'000
R. Watson	363	376
P. Heffer	290	300
T. Bergman (both years include holiday allowance and are translated at the 2013 average exchange rate)	344	356
N. Majewski	290	300

Annual bonus

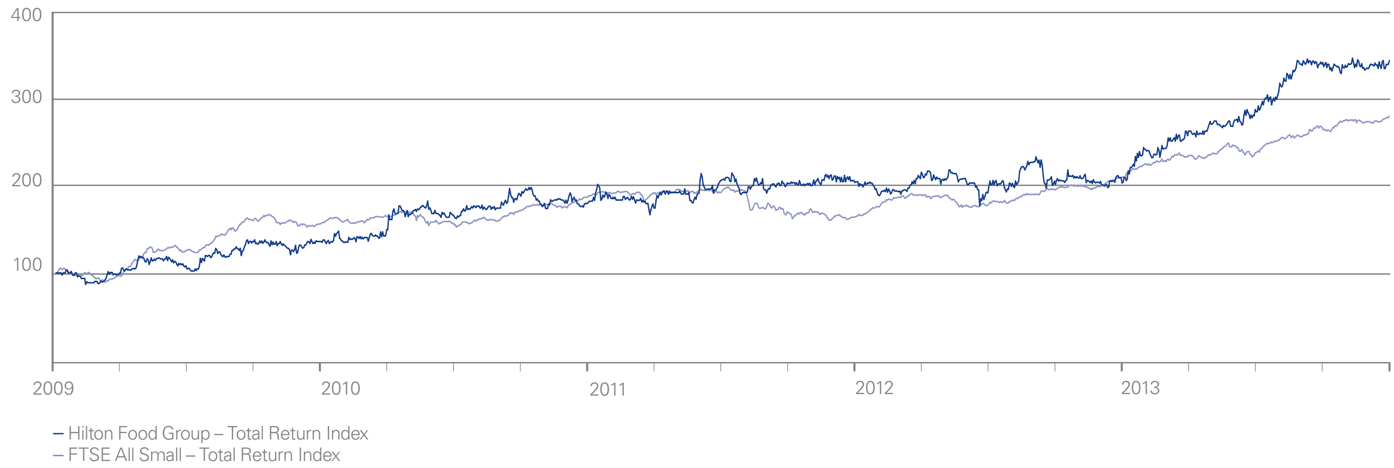
The maximum annual bonus in 2014 will be 125% of salary for all Executive Directors. The bonus will be payable subject to stretching targets around net income (105% of salary) and personal and strategic targets (20% of salary). As financial targets are set with reference to the budget, they are therefore considered commercially sensitive. The Committee will disclose targets on a retrospective basis.

2014 long term incentive awards

The Committee will make a decision on any 2014 grant of nil cost awards and their related performance conditions following the Annual report approval date. Details of new grant and performance conditions will be published via a Regulatory Information Service.

TSR performance graph

The graph below shows the Total Shareholder Return performance (TSR) (share price movements plus reinvested dividends) of the Company compared against the FTSE Small Cap Index covering the five years 2009 to 2013. The FTSE Small Cap Index is, in the opinion of the Directors, the most appropriate index against which the TSR of the Company should be measured.



Chief Executive Officer remuneration five year trend

	2009	2010	2011	2012	2013
Total remuneration (£'000)	584	644	730	593	610
Annual bonus (as a percentage of the maximum)	85%	63%	53%	10%	42%
Long term incentive vesting (as a percentage of the maximum)	n/a	100%	100%	100%	n/a

Notes

There were no long term incentive awards that were due to vest dependent on a performance period ending in 2009 or 2013.

Directors' remuneration report
continued

Chief Executive Officer remuneration percentage change

2013 percentage increase over 2012	CEO	Company average
Salary	3%	3%
Benefits	0%	n/a
Annual bonus	331%	n/a

Notes
The majority of employees do not receive benefits or annual bonus and so there is no meaningful data. An alternative comparator group is senior management for whom the percentage changes for salary, benefits and annual bonus were 3%, 0% and 3% respectively.

Relative importance of spend on pay
The following table sets out for the comparison total spend on pay with dividends.

	2013	2012	% change
	£'000	£'000	
Staff costs (note 8 to the financial statements)	72,141	66,727	8%
Dividends payable	9,201	8,548	8%

Notes
Dividends payable comprises any interim dividends paid in respect of the year plus the final dividend proposed for the year but not yet paid.

On behalf of the Board

Chris Marsh
Chairman of the Remuneration Committee
26 March 2014

Statements of Directors' responsibilities

Directors' responsibilities for the preparation of the Annual report and financial statements

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 Group and parent company financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. 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 the Group and the profit or loss of the Group for that period.

In preparing these financial statements the Directors are required to:

– select suitable accounting policies and then apply them consistently;

– make judgements and accounting estimates that are reasonable and prudent;

– state whether applicable IFRS as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and

– prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and which disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements and the Remuneration report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors consider that the Annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's performance, business model and strategy.

Responsibility statement of the Directors in respect of the Annual report and financial statements

Each of the Directors whose names and functions are set out on pages 32 and 33, confirm that to the best of their knowledge and belief:

– the Group and parent company financial statements, prepared in accordance with applicable UK law and in conformity with IFRS, as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group and the Company; and

– the management reports, which comprise the Strategic report and the Directors' report, include a fair review of the development and performance of the business and the position of the Group and the Company, together with a description of the principal risks and uncertainties they face.

This responsibility statement was approved by the Board of Directors on 26 March 2014 and is signed on its behalf by:

Robert Watson OBE
Chief Executive

Nigel Majewski
Finance Director

Independent auditors' report

to the members of Hilton Food Group plc

Report on the financial statements

Our opinion

In our opinion:

- The financial statements, defined below, give a true and fair view of the state of the Group's and of the Company's affairs as at 29 December 2013 and of the Group's profit and of the Group's and Company's cash flows for the year then ended;

- The Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;

- The Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and

- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

This opinion is to be read in the context of what we say below.

What we have audited

The Group financial statements and Parent Company financial statements (the "financial statements"), which are prepared by Hilton Food Group plc, comprise:

- the Group and Company balance sheets as at 29 December 2013;

- the Group income statement and statement of comprehensive income for the year then ended;

- the Group and Company statements of changes in equity and statements of cash flows for the year then ended; and

- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation comprises applicable law and IFRSs as adopted by the European Union and, as regards the Parent Company, as applied in accordance with the provisions of the Companies Act 2006.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK & Ireland)). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's and Company's circumstances and have been consistently applied and adequately disclosed;

- the reasonableness of significant accounting estimates made by the Directors; and

- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report and financial statements (the "Annual Report") to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Overview of our audit approach

Materiality

We set certain thresholds for materiality. These helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the Group financial statements as a whole to be £1.3 million which is approximately 5% of pre-tax profits.

Although our audit was designed to identify material misstatements, we agreed with the Audit Committee that we would report to them misstatements identified during our audit above £62,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Overview of the scope of our audit
The Group is structured as a parent company with 11 subsidiary undertakings, of which six are trading subsidiaries, and a joint venture company. The Group financial statements are a consolidation of these entities, which, together, comprise the Group's operating businesses, centralised functions and intermediary holding companies.

In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed at these entities by us, as the Group engagement team, or component auditors within other PwC network firms and other firms operating under our instruction. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those entities to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole.

We determined that all 11 companies within the Group required an audit of their complete financial information.

Areas of particular audit focus
In preparing the financial statements, the Directors made a number of subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We primarily focused our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

In our audit, we tested and examined information, using sampling and other auditing techniques, to the extent we considered necessary to provide a reasonable basis for us to draw conclusions. We obtained audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

We considered the following areas to be those that required particular focus in the current year. This is not a complete list of all risks or areas of audit focus identified by our audit. We discussed these areas of focus with the Audit Committee. Their report on those matters that they considered to be significant issues in relation to the financial statements is included within the risk management and internal controls section of the Report of the Audit Committee on page 39.

Fraud in revenue recognition
ISAs (UK & Ireland) presume there is a risk of fraud in revenue recognition because of the pressure management may feel to achieve the planned results.

We focused on the amount and timing of the recognition of revenue, particularly where the contractual customer terms provide for "cost plus" pricing or discounts, which are calculated by management.

We tested revenue by agreeing it to supporting documentation, including customer contracts, discounts and incentives, and to cash receipts.

We also tested journal entries posted to revenue accounts by identifying and challenging unusual or irregular items.

Risk of management override of internal controls
ISAs (UK & Ireland) require that we consider this.

We assessed the overall control environment of the Group, including the arrangements for staff to "whistle-blow" inappropriate actions, and interviewed senior management and the Group's internal audit function. We examined the significant accounting estimates and judgements relevant to the financial statements for evidence of bias by the Directors that may represent a risk of material misstatement due to fraud. In particular, we challenged the estimates in respect of the cost plus revenue adjustments and customer rebates. We also tested journal entries.

Going Concern
Under the Listing Rules we are required to review the Directors' statement, set out on page 21, in relation to going concern. We have nothing to report having performed our review.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to prepare the Group's and Company's financial statements using the going concern basis of accounting. The going concern basis presumes that the Group and Company have adequate resources to remain in operation, and that the Directors intend them to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate.

However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's and the Company's ability to continue as a going concern.

Independent auditors' report

to the members of Hilton Food Group plc continued

Opinions on other matters prescribed by the Companies Act 2006

In our opinion:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements;

- the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and

- the information given in the Corporate governance statement set out on pages 36 to 38 in the Annual Report with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received 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

- the Company financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006, we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law have not been made. We have no exceptions to report arising from this responsibility.

Corporate Governance Statement

Under the Companies Act 2006, we are required to report to you if, in our opinion a corporate governance statement has not been prepared by the Company. We have no exceptions to report arising from this responsibility.

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the Company's compliance with nine provisions of the UK Corporate Governance Code (the "Code"). We have nothing to report having performed our review.

On page 53 of the Annual Report, as required by the Code Provision C.1.1, the directors state that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's performance, business model and strategy. On page 39, as required by C.3.8 of the Code, the Audit Committee has set out the significant issues that it considered in relation to the financial statements, and how they were addressed. Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

- the statement given by the Directors is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit; or

- the section of the Annual Report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have no exceptions to report arising from this responsibility.

Other information in the Annual Report

Under ISAs (UK & Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or

- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group and Parent Company acquired in the course of performing our audit; or

- is otherwise misleading.

We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Directors' responsibilities statement on page 53, the Directors are responsible for the preparation of the Group and Company financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the Group and Parent Company financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.

Martin Pitt
(Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Belfast

26 March 2014

The maintenance and integrity of the Hilton Food Group plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Financial statements

Consolidated income statement

	Notes	2013 52 weeks £'000	2012 52 weeks £'000
Continuing operations			
Revenue	5	1,124,780	1,031,004
Cost of sales		(993,257)	(904,755)
Gross profit		131,523	126,249
Distribution costs		(10,498)	(9,149)
Administrative expenses		(95,715)	(91,133)
Share of profit in joint venture		464	–
Operating profit		25,774	25,967
Finance income	9	118	199
Finance costs	9	(1,020)	(1,454)
Finance costs – net	9	(902)	(1,255)
Profit before income tax		24,872	24,712
Income tax expense	10	(5,512)	(5,807)
Profit for the year		19,360	18,905
Attributable to:			
Owners of the parent		17,828	17,584
Non-controlling interests		1,532	1,321
		19,360	18,905
Earnings per share attributable to owners of the parent during the year			
Basic (pence)	11	25.0	24.9
Diluted (pence)	11	24.8	24.7

Consolidated statement of comprehensive income

	2013 52 weeks £'000	2012 52 weeks £'000
Profit for the year	19,360	18,905
Other comprehensive income		
Currency translation differences	390	(275)
Other comprehensive income for the year net of tax	390	(275)
Total comprehensive income for the year	19,750	18,630
Total comprehensive income attributable to:		
Owners of the parent	18,151	17,392
Non-controlling interests	1,599	1,238
	19,750	18,630

The notes on pages 64 to 84 are an integral part of these consolidated financial statements.

Consolidated balance sheet

	Notes	Group 2013 £'000	Group 2012 £'000	Company 2013 £'000	Company 2012 £'000
Assets					
Non-current assets					
Property, plant and equipment	13	58,876	56,162	–	–
Intangible assets	14	2,660	1,857	–	–
Investments	15	405	–	102,985	102,985
Deferred income tax assets	21	1,313	1,111	–	–
		63,254	59,130	102,985	102,985
Current assets					
Inventories	16	23,837	21,885	–	–
Trade and other receivables	17	124,356	107,811	88	115
Current income tax assets		745	699	53	87
Cash and cash equivalents	18	34,642	31,428	189	30
		183,580	161,823	330	232
Total assets		246,834	220,953	103,315	103,217
Equity					
Equity attributable to owners of the parent					
Ordinary shares	22	7,216	7,087	7,216	7,087
Share premium		5,885	2,562	5,885	2,562
Employee share schemes reserve		857	1,238	–	–
Foreign currency translation reserve		2,422	2,099	–	–
Retained earnings		63,989	54,932	11,922	11,148
		80,369	67,918	25,023	20,797
Reverse acquisition reserve		(31,700)	(31,700)	–	–
Merger reserve		919	919	71,019	71,019
		49,588	37,137	96,042	91,816
Non-controlling interests		4,670	3,835	–	–
Total equity		54,258	40,972	96,042	91,816
Liabilities					
Non-current liabilities					
Borrowings	19	18,616	25,133	–	–
Deferred income tax liabilities	21	1,459	1,579	–	–
		20,075	26,712	–	–
Current liabilities					
Borrowings	19	11,104	11,497	–	–
Trade and other payables	20	161,397	141,772	7,273	11,401
		172,501	153,269	7,273	11,401
Total liabilities		192,576	179,981	7,273	11,401
Total equity and liabilities		246,834	220,953	103,315	103,217

The notes on pages 64 to 84 are an integral part of these consolidated financial statements.

The financial statements on pages 59 to 84 were approved by the Board on 26 March 2014 and were signed on its behalf by:

R. Watson OBE
Director

N. Majewski
Director

Hilton Food Group plc – Registered number: 06165540

Consolidated statement of changes in equity

		Attributable to owners of the parent									
Group	Notes	Share capital £'000	Share premium £'000	Employee share schemes reserve £'000	Foreign currency translation reserve £'000	Retained earnings £'000	Reverse acquisition reserve £'000	Merger reserve £'000	Total £'000	Non-controlling interests £'000	Total equity £'000
Balance at 2 January 2012		6,985	372	1,558	2,291	45,392	(31,700)	919	25,817	3,452	29,269
Profit for the year		–	–	–	–	17,584	–	–	17,584	1,321	18,905
Other comprehensive income											
Currency translation differences		–	–	–	(192)	–	–	–	(192)	(83)	(275)
Total comprehensive income for the year		–	–	–	(192)	17,584	–	–	17,392	1,238	18,630
Issue of new shares		102	1,678	–	–	–	–	–	1,780	–	1,780
Adjustment in respect of employee share schemes		–	453	(168)	–	–	–	–	285	–	285
Tax on employee share schemes		–	59	(152)	–	–	–	–	(93)	–	(93)
Dividends paid	12	–	–	–	–	(8,044)	–	–	(8,044)	(855)	(8,899)
Total transactions with owners		102	2,190	(320)	–	(8,044)	–	–	(6,072)	(855)	(6,927)
Balance at 30 December 2012		7,087	2,562	1,238	2,099	54,932	(31,700)	919	37,137	3,835	40,972
Profit for the year		–	–	–	–	17,828	–	–	17,828	1,532	19,360
Other comprehensive income											
Currency translation differences		–	–	–	323	–	–	–	323	67	390
Total comprehensive income for the year		–	–	–	323	17,828	–	–	18,151	1,599	19,750
Issue of new shares		129	2,498	–	–	–	–	–	2,627	–	2,627
Adjustment in respect of employee share schemes		–	682	(599)	–	–	–	–	83	–	83
Tax on employee share schemes		–	143	218	–	–	–	–	361	–	361
Dividends paid	12	–	–	–	–	(8,771)	–	–	(8,771)	(764)	(9,535)
Total transactions with owners		129	3,323	(381)	–	(8,771)	–	–	(5,700)	(764)	(6,464)
Balance at 29 December 2013		7,216	5,885	857	2,422	63,989	(31,700)	919	49,588	4,670	54,258
Company											
Balance at 2 January 2012		6,985	372	–	–	9,970	–	71,019	88,346		
Profit for the year		–	–	–	–	9,222	–	–	9,222		
Total comprehensive income for the year		–	–	–	–	9,222	–	–	9,222		
Issue of new shares		102	1,678	–	–	–	–	–	1,780		
Adjustment in respect of employee share schemes		–	453	–	–	–	–	–	453		
Tax on employee share schemes		–	59	–	–	–	–	–	59		
Dividends paid	12	–	–	–	–	(8,044)	–	–	(8,044)		
Total transactions with owners		102	2,190	–	–	(8,044)	–	–	(5,752)		
Balance at 30 December 2012		7,087	2,562	–	–	11,148	–	71,019	91,816		
Profit for the year		–	–	–	–	9,545	–	–	9,545		
Total comprehensive income for the year		–	–	–	–	9,545	–	–	9,545		
Issue of new shares		129	2,498	–	–	–	–	–	2,627		
Adjustment in respect of employee share schemes		–	682	–	–	–	–	–	682		
Tax on employee share schemes		–	143	–	–	–	–	–	143		
Dividends paid	12	–	–	–	–	(8,771)	–	–	(8,771)		
Total transactions with owners		129	3,323	–	–	(8,771)	–	–	(5,319)		
Balance at 29 December 2013		7,216	5,885	–	–	11,922	–	71,019	96,042		

The notes on pages 64 to 84 are an integral part of these consolidated financial statements.

Consolidated cash flow statement

	Notes	Group 2013 52 weeks £'000	Group 2012 52 weeks £'000	Company 2013 52 weeks £'000	Company 2012 52 weeks £'000
Cash flows from operating activities					
Cash generated from operations	24	41,788	40,682	–	–
Interest paid		(1,020)	(1,454)	(213)	(366)
Income tax (paid)/received		(5,515)	(6,804)	115	156
Net cash generated from/(used in) operating activities		35,253	32,424	(98)	(210)
Cash flows from investing activities					
Purchases of property, plant and equipment		(17,228)	(12,131)	–	–
Proceeds from sale of property, plant and equipment		147	329	–	–
Purchases of intangible assets		(1,272)	(295)	–	–
Interest received		118	199	–	–
Dividends received		–	–	9,750	9,500
Net cash (used in)/generated from investing activities		(18,235)	(11,898)	9,750	9,500
Cash flows from financing activities					
Proceeds from borrowings		3,845	1,230	–	–
Repayments of borrowings		(11,114)	(10,224)	–	–
Repayment of inter-company loan		–	–	(3,349)	(3,010)
Issue of ordinary shares		2,627	1,780	2,627	1,780
Dividends paid to owners of the parent		(8,771)	(8,044)	(8,771)	(8,044)
Dividends paid to non-controlling interests		(764)	(855)	–	–
Net cash used in financing activities		(14,177)	(16,113)	(9,493)	(9,274)
Net increase in cash and cash equivalents		2,841	4,413	159	16
Cash and cash equivalents at beginning of the year		31,428	27,345	30	14
Exchange gains/(losses) on cash and cash equivalents		373	(330)	–	–
Cash and cash equivalents at end of the year	18	34,642	31,428	189	30

The notes on pages 64 to 84 are an integral part of these consolidated financial statements.

Notes to the financial statements

1 General information

Hilton Food Group plc ("the Company") and its subsidiaries (together "the Group") is a specialist retail meat packing business supplying major international food retailers in 13 countries. The Company's subsidiaries are listed in note 15.

The Company is a public limited company incorporated and domiciled in the UK. The address of the registered office is 2–8 The Interchange, Latham Road, Huntingdon, Cambridgeshire PE29 6YE. The registered number of the Company is 06165540.

The Company maintains a Premium Listing on the London Stock Exchange.

The financial year represents the 52 weeks to 29 December 2013 (prior financial year 52 weeks to 30 December 2012).

These consolidated financial statements were approved for issue on 26 March 2014.

The Company has taken advantage of the exemption in Section 408 Companies Act 2006 not to publish its individual income statement, statement of comprehensive income and related notes. Profit for the year dealt with in the income statement of Hilton Food Group plc amounted to £9,545,000 (2012: £9,222,000).

2 Summary of significant accounting policies

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

Basis of preparation

The consolidated financial statements of Hilton Food Group plc have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS), IFRIC interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared on the going concern basis under the historical cost convention.

The financial statements are presented in Sterling and all values are rounded to the nearest thousand (£'000) except when otherwise indicated.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

Basis of consolidation

These consolidated financial statements comprise the financial statements of Hilton Food Group plc ("the Company"), its subsidiaries and its share of profit in joint ventures, together, ("the Group") drawn up to 29 December 2013. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

A subsidiary is an entity controlled, either directly or indirectly, by the Company, where control is the power to govern the financial and operating policies of the entity.

All inter-company balances and transactions, including unrealised profits arising from inter-group transactions, are eliminated on consolidation.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Acquisition costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

Joint ventures are all entities which the Group exercises joint control and has an interest in the net assets of that entity. Investments in joint ventures are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition.

The Group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment.

International Financial Reporting Standards

(a) New standards, amendments and interpretations effective in 2013

Amendment to IFRS 7 on financial instruments asset and liability offsetting (effective 1 January 2013). This amendment, along with the amendment to IAS 32 clarifies some of the requirements for offsetting financial assets and financial liabilities on the balance sheet.

IFRS 13, 'Fair value measurement' (effective 1 January 2013). This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS.

There are no other IFRS or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2012 that would be expected to have a material impact on the Group or Company.

(b) New standards, amendments and interpretations issued but not yet effective, are subject to EU endorsement and not early adopted

IAS 27 (revised 2011) 'Separate financial statements' (effective 1 January 2014). This revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control. The standard also specifies the accounting when control is lost.

IAS 28 (revised 2011) 'Associates and joint ventures' (effective 1 January 2014). This standard includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11.

Amendment to IAS 32 'Financial instruments: Presentation on offsetting financial assets and financial liabilities' (effective 1 January 2014). This along with the IFRS 7 amendment clarifies some of requirements for offsetting financial assets and financial liabilities on the balance sheet.

IFRS 10, 'Consolidated financial statements' (effective 1 January 2014). This standard identifies the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements.

IFRS 11, 'Joint arrangements' (effective 1 January 2014). This standard focuses on the rights and obligations of the arrangement rather than its legal form.

IFRS 12, 'Disclosures of interests in other entities' (effective 1 January 2014). This standard includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.

Amendment to IFRS 10, 11 & 12 'Transition guidance' (effective 1 January 2014). The amendments clarify the Board's intention when first issuing the transition guidance in IFRS 10.

Amendment to IFRS 10, 12 and IAS 27 'Consolidation for investment entities' (effective 1 January 2014). The amendments define an investment entity and introduce an exception to consolidating particular subsidiaries for investment entities.

There are no other IFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group or Company.

Revenue recognition

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

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Group and the criteria set out in the following paragraph have been met.

The Group sells meat in the wholesale market. Sales of goods are recognised when a Group entity has delivered products to the customer and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery does not occur until the products have been shipped to the location specified by the customer, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of operating segments, has been identified as the Group's Executive Directors.

Notes to the financial statements
continued

2 Summary of significant accounting policies (continued)
Foreign currency translation
(a) Functional and presentation currency
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Sterling, which is the Company's functional and the Group's presentation currency.

(b) Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(c) Group companies
The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

– assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

– income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

– all resulting currency translation differences are recognised in other comprehensive income and disclosed as a separate component of equity in a foreign currency translation reserve.

When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Property, plant and equipment
Property, plant and equipment are stated at historical cost less accumulated depreciation and any impairment in value. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight line method to allocate the cost of property, plant and equipment to their residual values over their estimated useful lives, as follows:

	Annual rate
Buildings – Held under finance lease	5%
Buildings – Leasehold improvements	10%
Plant and machinery	14%–33%
Fixtures and fittings	14%–33%
Motor vehicles	25%

Land is not depreciated. Assets in the course of construction are not depreciated until commissioned.

The residual value and useful lives of property, plant and equipment are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying value is written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. These impairment losses are recognised in the income statement. Following the recognition of an impairment loss, the depreciation charge applicable to the asset is adjusted prospectively in order to systematically allocate the revised carrying amount, net of any residual value, over the remaining useful economic life.

Intangible assets

(a) Goodwill

Goodwill on acquisitions of subsidiaries and purchase of non-controlling interests is included in 'intangible assets', tested annually for impairment and carried at cost less accumulated impairment losses. Goodwill represents the excess of the cost of the acquisition or purchase over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary or non-controlling interest at the date of acquisition.

(b) Computer software

Acquired software licences are stated at cost less accumulated amortisation and are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on a straight line basis over their useful economic lives of three to seven years.

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred.

(c) Product licences

The costs of acquiring product licences are capitalised and amortised on a straight line basis over their expected useful economic lives of five to ten years.

Investments

Investments in subsidiary undertakings and joint ventures are carried at cost less provision for impairment.

Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment.

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell, and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows (cash generating units). Non-financial assets other than goodwill that have suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Financial assets

(a) Classification

The Group classifies all of its financial assets as loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the balance sheet.

(b) Recognition and measurement

Loans and receivables are recognised initially at fair value and subsequently carried at amortised cost using the effective interest method.

(c) Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is either determined on the first in first out basis or by the 'retail method' depending on the subsidiary. The 'retail method' computes cost on the basis of selling price less the appropriate trading margin. Cost comprises material costs, direct wages and other direct production costs together with a proportion of production overheads relevant to the stage of completion of work in progress and finished goods and excludes borrowing costs. Net realisable value represents the estimated selling price less costs to completion and appropriate selling and distribution costs. Provision is made, where necessary, for slow moving, obsolete and defective inventories.

Notes to the financial statements

continued

2 Summary of significant accounting policies (continued)

Trade and other receivables

Trade receivables represent amounts due from customers for goods sold or services performed in the ordinary course of business. If collection is expected in one year or less they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less provision for impairment.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and short term deposits with an original maturity of three months or less. Bank overdrafts are shown on the balance sheet within borrowings in current liabilities.

Share capital and reserves

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

The share premium and employee share schemes reserve represents the premium on new shares issued in connection with and the fair value of share options outstanding under the Group's share schemes respectively.

The foreign currency translation reserve represents the cumulative currency differences arising on the translation of the Group's overseas subsidiaries.

The merger and reverse acquisition reserves arose during 2007 following the restructuring of the Group.

Trade and other payables

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

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Borrowings

All borrowings are recognised initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs directly attributable to an acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset. All other borrowing costs are recognised in the income statement in the period in which they are incurred.

Leases

Assets acquired under a lease which transfers substantially all of the risks and rewards of ownership to the Group, are capitalised as property, plant and equipment at the lower of their fair value and the present value of the minimum lease payments and are depreciated over the shorter of their useful economic lives and their lease term with any impairment being recognised in accumulated depreciation. Amounts payable under such leases (finance leases), net of transaction costs, are classified as current and non-current liabilities based on the lease payment dates. Lease payments are treated as consisting of capital and interest elements and the interest is charged to the income statement in proportion to the reducing capital element outstanding.

Leases where the lessor retains substantially all of the risks and rewards of ownership are classified as operating leases. The annual rentals under operating leases are charged to the income statement as incurred on a straight line basis over the period of the lease.

Current and deferred income tax
The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge represents the expected tax payable or recoverable on the taxable profit for the year using tax laws enacted or substantively enacted at the balance sheet date.

Deferred income tax is recognised, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Pensions and other post-employment benefits
The Group operates defined contribution schemes for certain employees in the UK, Ireland, the Netherlands and Denmark and contributes to a state administered money purchase scheme in Poland. The Group pays contributions to publicly or privately administered pension insurance plans and has no further payment obligations once the contributions have been made. The contributions are recognised as an employee benefit expense when they are due.

In the Netherlands and Sweden the Group contributes to industry-wide pension schemes for its employees. Although having some defined benefit features, the Group's liability to these schemes is limited to the fixed contributions which are recognised as an expense when they are due. Accordingly the Group has accounted for these schemes as defined contribution schemes.

Share-based payments
The Group operates a number of equity settled share-based compensation plans. The fair value of the employee services received in exchange for the grant of options is recognised as an expense with a corresponding adjustment to equity. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest based on non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity. All adjustments to equity are recognised as a separate component of equity in an employee share scheme reserve. When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

Grants
Grants are recognised at their fair value when there is a reasonable assurance that the grant will be received and all attaching conditions have been complied with.

Capital grants received and receivable by the Group are credited to deferred income and are amortised to the income statement on a straight line basis over the expected useful economic lives of the assets to which they relate.

Revenue grants are recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Dividend distribution
Dividend distribution to the Company's shareholders is recognised as a liability in the consolidated financial statements in the period in which the dividends are approved by the Company's shareholders.

Notes to the financial statements
continued

3 Financial risk management
Financial risk factors
The Group's activities expose it to a variety of financial risks: market risk including price risk, foreign exchange risk and cash flow interest rate risk, credit risk and liquidity risk. The Group has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the Group by monitoring the foregoing risks.

(a) Market risk
(i) Price risk
The Group is not exposed to equity securities price risk as it holds no listed or other equity investments. The Group is exposed to commodity price risk which is significantly mitigated through its customer agreements which are on a cost plus or agreed packing rate basis.

(ii) Foreign exchange risk
The Group is exposed to foreign exchange risk in the normal course of business in its overseas operations, principally on transactions in Euros, Swedish Krona, Danish Krone and Polish Zloty, although such risk is mitigated as natural hedges exist in each operation through matching local currency cash flows. The Group regularly monitors foreign exchange exposure and to date has deemed it not appropriate to hedge its foreign exchange position.

(iii) Cash flow interest rate risk
The Group's interest rate risk arises from long term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. The Group seeks to manage exposure to interest rate risk through interest rate caps over the majority of its long term borrowings.

(iv) Sensitivity analysis

Group	2013 Income statement £'000	2013 Equity £'000	2012 Income statement £'000	2012 Equity £'000
Annual effect of a change in Group-wide interest rates by 0.5%	101	101	126	126
	–101	–101	–126	–126
Annual effect of a change in exchange rates to the GBP £ by 10%	2,233	6,092	2,165	5,442
	–1,827	–4,984	–1,788	–4,469

(b) Credit risk
The Group is exposed to credit risk in respect of credit exposures to its retail customer partners and banking arrangements. The Group, whose only customers comprise blue chip international supermarket retailers, has implemented policies that require appropriate credit checks on potential customers before sales are made and in relation to its banking partners. The Group's maximum exposure to credit risk is £110.9m (2012: £97.1m) as stated in note 17.

(c) Liquidity risk
The Group monitors regular cash forecasts to ensure that it has sufficient cash to meet operational needs whilst maintaining sufficient headroom on its undrawn committed borrowing facilities and without breaching its banking covenants. The Group held significant cash and cash equivalents of £34.6m (2012: £31.4m) and maintains a mix of long term and short term debt finance.

The Group's financial liabilities measured as the contractual undiscounted cash flows mature as follows:

	2013			2012		
	Borrowings £'000	Finance leases £'000	Trade and other payables £'000	Borrowings £'000	Finance leases £'000	Trade and other payables £'000
Less than one year	11,180	342	156,246	12,178	327	136,691
Between one and two years	12,685	351	–	10,966	335	–
Between two and five years	4,061	1,106	–	12,493	1,057	–
Over five years	–	2,244	–	–	2,191	–

Capital risk management
The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of a gearing ratio. This ratio is calculated as net debt divided by EBITDA. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown on the consolidated balance sheet) less cash and cash equivalents. EBITDA is calculated as operating profit before significant non-recurring items, interest, tax, depreciation and amortisation. There was no gearing as at the year end (2012: 0.1).

Fair value estimation

The carrying value of trade receivables (less impairment provisions) and trade payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments. The Directors consider that there is a single level of fair value measurement hierarchy for disclosure purposes.

4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

During 2013 and 2012 there were no critical accounting estimates or judgements in relation to the application of the Group's accounting policies.

5 Segment information

Management have determined the operating segments based on the reports reviewed by the Executive Directors that are used to make strategic decisions.

The Executive Directors have considered the business from both a geographic and product perspective.

From a geographic perspective, the Executive Directors consider that the Group has seven operating segments: i) United Kingdom; ii) Netherlands; iii) Republic of Ireland; iv) Sweden; v) Denmark; vi) Central Europe including Poland, Czech Republic, Hungary, Slovakia, Latvia, Lithuania and Estonia and vii) Central costs and other including the share of profit from the joint venture in Australia. The United Kingdom, Netherlands, Republic of Ireland, Sweden and Denmark have been aggregated into one reportable segment 'Western Europe' as they have similar economic characteristics as identified in IFRS 8. Central Europe and Central costs and other comprise the other reportable segments.

An additional reportable segment has been included for 2013 to reflect the change in the reports reviewed by the Executive Directors as a result of the joint venture entered into during the financial year. The 2012 comparatives have been restated accordingly.

From a product perspective the Executive Directors consider that the Group has only one identifiable product, wholesaling of meat. The Executive Directors consider that no further segmentation is appropriate, as all of the Group's operations are subject to similar risks and returns and exhibit similar long term financial performance.

The segment information provided to the Executive Directors for the reportable segments is as follows:

	Western Europe £'000	Central Europe £'000	Central costs and other £'000	2013 Total £'000	Western Europe £'000	Central Europe £'000	Central costs and other £'000	2012 Total £'000
Total segment revenue	1,029,131	96,265	–	1,125,396	937,405	95,552	–	1,032,957
Inter–segment revenue	(414)	(202)	–	(616)	(1,953)	–	–	(1,953)
Revenue from external customers	1,028,717	96,063	–	1,124,780	935,452	95,552	–	1,031,004
Operating profit/segment result	27,860	2,481	(4,567)	25,774	27,712	2,318	(4,063)	25,967
Finance income	56	57	5	118	115	78	6	199
Finance costs	(556)	(29)	(435)	(1,020)	(771)	(20)	(663)	(1,454)
Income tax expense	(6,133)	(497)	1,118	(5,512)	(5,987)	(467)	647	(5,807)
Profit for the year	21,227	2,012	(3,879)	19,360	21,069	1,909	(4,073)	18,905
Depreciation and amortisation	14,205	1,287	78	15,570	13,160	1,135	82	14,377
Additions to non–current assets	17,898	456	146	18,500	11,445	854	127	12,426
Segment assets	223,027	18,495	3,254	244,776	197,275	21,023	845	219,143
Current income tax assets				745				699
Deferred income tax assets				1,313				1,111
Total assets				246,834				220,953
Segment liabilities	166,394	9,556	1,114	177,064	146,605	12,492	595	159,692
Borrowings				14,053				18,710
Deferred income tax liabilities				1,459				1,579
Total liabilities				192,576				179,981

Notes to the financial statements

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5 Segment information (continued)

Sales between segments are carried out at arm's length. Revenue from external customers reported to the Executive Directors is measured in a manner consistent with that in the income statement.

The Executive Directors assess the performance of each operating segment based on its operating profit. Operating profit is measured in a manner consistent with that in the income statement.

The amounts provided to the Executive Directors with respect to total assets and liabilities are measured in a manner consistent with that of the financial statements. The assets are allocated based on the operations of the segment and their physical location. The liabilities are allocated based on the operations of the segment. The Group interest bearing reorganisation loan is not considered to be a segment liability.

The Group has four principal customers (comprising groups of entities known to be under common control), Tesco, Ahold, Coop Danmark and ICA Gruppen. These customers are located in the United Kingdom, Netherlands, Republic of Ireland, Sweden, Denmark and Central Europe including Poland, Czech Republic, Hungary, Slovakia, Latvia, Lithuania and Estonia.

Analysis of revenues from external customers and non-current assets are as follows:

	Revenues from external customers		Non-current assets excluding deferred tax assets	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Analysis by geographical area				
United Kingdom – country of domicile	314,465	278,945	15,802	9,797
Netherlands	294,596	254,476	12,532	11,477
Sweden	222,802	211,109	5,302	4,374
Republic of Ireland	76,010	78,976	5,299	6,420
Denmark	120,843	111,946	18,560	20,681
Central Europe	96,064	95,552	4,446	5,270
	1,124,780	1,031,004	61,941	58,019
Analysis by principal customer				
Customer 1	418,085	380,290		
Customer 2	338,522	306,295		
Customer 3	239,331	227,007		
Customer 4	120,748	111,245		
Other	8,094	6,167		
	1,124,780	1,031,004		

6 Auditors' remuneration

Services provided by the Company's auditor and its associates

During the year the Group (including its overseas subsidiaries) obtained the following services from the Company's auditor and its associates:

Group	2013 £'000	2012 £'000
Fees payable to the Company's auditor for the audit of the parent company and consolidated financial statements	128	128
Fees payable to the Company's auditors and its associates for other services:		
– The audit of the Company's subsidiaries pursuant to legislation	136	146
– Other services pursuant to legislation	43	43
– Services relating to taxation	66	80
– All other services	5	9
Total fees payable to the Company's auditor and its associates	378	406

Fees payable to other auditors in respect of services provided to subsidiary undertakings	60	52

7 Expenses by nature

Group	2013 £'000	2012 £'000
Changes in inventories of finished goods and goods for resale	(501)	899
Raw materials and consumables used	928,789	848,848
Employee benefit expense (note 8)	72,141	66,727
Depreciation and amortisation – owned assets	15,395	14,198
Depreciation and amortisation – leased assets	175	179
Repairs and maintenance expenditure on property, plant and equipment	11,445	12,185
Trade receivables – impairment	6	5
Hire of plant and machinery	717	667
Transportation expenses	10,332	9,513
Operating lease payments	8,226	7,774
Foreign exchange losses	21	213
Other expenses	52,724	43,829
Total cost of sales, distribution costs and administrative expenses	1,099,470	1,005,037

8 Employee benefit expense

Group	2013 £'000	2012 £'000
Staff costs during the year		
Wages and salaries	60,824	56,030
Social security costs	8,306	7,647
Share options granted to Directors and employees	83	285
Other pension costs	2,928	2,765
	72,141	66,727

Group	2013 Number	2012 Number
Average number of persons employed (including Executive Directors) during the year by activity		
Production	1,776	1,749
Administration	467	464
	2,243	2,213

Group	2013 £'000	2012 £'000
Key management compensation (including Directors)		
Salaries and short term employee benefits	3,282	3,013
Termination payments	–	282
Post-employment benefits	308	210
Share-based payments	58	199
	3,648	3,704

Group	2013 £'000	2012 £'000
Directors' emoluments		
Aggregate emoluments including termination payments	2,127	2,598
Company contribution to money purchase pension scheme	232	143
	2,359	2,741

Further details of Directors' emoluments and share interests are given in the Directors' remuneration report.

There are no other employees of the Company other than the Directors. Employee expense of the Company amounted to £nil (2012: £nil).

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9 Finance income and costs

Group	2013 £'000	2012 £'000
Finance income		
Interest income on short term bank deposits	115	198
Interest on income taxes	3	1
Finance income	118	199
Finance costs		
Bank borrowings	(671)	(1,035)
Finance leases	(208)	(207)
Exchange losses on foreign currency borrowings	(63)	(97)
Other interest expense	(78)	(115)
Finance costs	(1,020)	(1,454)
Finance costs – net	(902)	(1,255)

10 Income tax expense

Group	2013 £'000	2012 £'000
Current income tax		
Current tax on profits for the year	5,764	5,068
Adjustments to tax in respect of previous years	(130)	(79)
Total current tax	5,634	4,989
Deferred income tax		
Origination and reversal of temporary differences	(198)	862
Adjustments to tax in respect of previous years	76	(44)
Total deferred tax	(122)	818
Income tax expense	5,512	5,807

Deferred tax credited directly to equity during the year in respect of employee share schemes amounted to £218,000 (2012: £152,000 debit).

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the standard rate of UK Corporation Tax of 23.25% (2012: 24.5%) applied to profits of the consolidated entities as follows:

	2013 £'000	2012 £'000
Profit before income tax	24,872	24,712
Tax calculated at the standard rate of UK Corporation Tax 23.25% (2012: 24.5%)	5,783	6,054
Expenses not deductible for tax purposes	88	87
Adjustments to tax in respect of previous years	(54)	(123)
Profits taxed at rates other than 23.25% (2012: 24.5%)	(207)	(286)
Other	(98)	75
Income tax expense	5,512	5,807

There is no tax impact relating to components of other comprehensive income.

11 Earnings per share

Basic earnings per share are calculated by dividing the profit attributable to owners of the parent by the weighted average number of ordinary shares in issue during the year.

Diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has share options for which a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2013		2012	
Group	Basic	Diluted	Basic	Diluted
Profit attributable to owners of the parent (£'000)	17,828	17,828	17,584	17,584
Weighted average number of ordinary shares in issue (thousands)	71,321	71,321	70,538	70,538
Adjustment for share options (thousands)	–	654	–	738
Adjusted weighted average number of ordinary shares (thousands)	71,321	71,975	70,538	71,276
Basic and diluted earnings per share (pence)	25.0	24.8	24.9	24.7

12 Dividends

Group	2013 £'000	2012 £'000
Final dividend in respect of 2012 paid 8.6p per ordinary share (2012: 8.0p)	6,139	5,635
Interim dividend in respect of 2013 paid 3.65p per ordinary share (2012: 3.4p)	2,632	2,409
Total dividends paid	8,771	8,044

The Directors propose a final dividend of 9.1p per share payable on 27 June 2014 to shareholders who are on the register at 30 May 2014. This dividend totalling £6.6m has not been recognised as a liability in these consolidated financial statements.

Notes to the financial statements
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13 Property, plant and equipment

Group	Land and buildings (including leasehold improvements) £'000	Plant and machinery £'000	Fixtures and fittings £'000	Motor vehicles £'000	Total £'000
Cost					
At 2 January 2012	24,737	128,311	11,063	351	164,462
Exchange adjustments	(281)	(940)	81	3	(1,137)
Additions	449	10,887	679	116	12,131
Disposals	–	(451)	(1,164)	(192)	(1,807)
At 30 December 2012	24,905	137,807	10,659	278	173,649
Accumulated depreciation					
At 2 January 2012	12,650	83,738	8,717	178	105,283
Exchange adjustments	(290)	(256)	145	2	(399)
Charge for the year	1,905	11,355	712	69	14,041
Disposals	–	(155)	(1,164)	(119)	(1,438)
At 30 December 2012	14,265	94,682	8,410	130	117,487
Net book amount					
At 2 January 2012	12,087	44,573	2,346	173	59,179
At 30 December 2012	10,640	43,125	2,249	148	56,162
Cost					
At 31 December 2012	24,905	137,807	10,659	278	173,649
Exchange adjustments	256	979	24	–	1,259
Additions	1,003	15,017	1,066	142	17,228
Disposals	(2)	(718)	(598)	(109)	(1,427)
At 29 December 2013	26,162	153,085	11,151	311	190,709
Accumulated depreciation					
At 31 December 2012	14,265	94,682	8,410	130	117,487
Exchange adjustments	107	412	6	–	525
Charge for the year	1,957	12,093	986	65	15,101
Disposals	(1)	(620)	(597)	(62)	(1,280)
At 29 December 2013	16,328	106,567	8,805	133	131,833
Net book amount					
At 29 December 2013	9,834	46,518	2,346	178	58,876

Land and buildings are held under short leaseholds. Details of bank borrowings secured on assets of the Group are given in note 19. Depreciation charges are included within administrative expenses in the income statement.

The cost and net book amount of property plant and equipment in the course of its construction included above comprise plant and machinery £5,027,000 (2012: £668,000).

Property, plant and equipment include the following amounts where the Group is a lessee under a finance lease:

	2013 £'000	2012 £'000
Cost – capitalised finance leases	3,412	3,357
Accumulated depreciation	(1,688)	(1,492)
Net book amount	1,724	1,865

Included in assets held under finance leases are land and buildings with a net book amount of £1,724,000 (2012: £1,858,000) and plant and machinery with a net book amount of £nil (2012: £7,000).

14 Intangible assets

Group	Product licences £'000	Computer software £'000	Goodwill £'000	Total £'000
Cost				
At 2 January 2012	7,703	3,989	836	12,528
Exchange adjustments	(189)	78	–	(111)
Additions	35	260	–	295
At 30 December 2012	7,549	4,327	836	12,712
Accumulated amortisation				
At 2 January 2012	7,665	2,956	–	10,621
Exchange adjustments	(189)	87	–	(102)
Charge for the year	12	324	–	336
At 30 December 2012	7,488	3,367	–	10,855
Net book amount				
At 2 January 2012	38	1,033	836	1,907
At 30 December 2012	61	960	836	1,857
Cost				
At 31 December 2012	7,549	4,327	836	12,712
Exchange adjustments	138	(12)	–	126
Additions	1,146	126	–	1,272
At 29 December 2013	8,833	4,441	836	14,110
Accumulated amortisation				
At 31 December 2012	7,488	3,367	–	10,855
Exchange adjustments	156	(30)	–	126
Charge for the year	145	324	–	469
At 29 December 2013	7,789	3,661	–	11,450
Net book amount				
At 29 December 2013	1,044	780	836	2,660

Amortisation charges are included within administrative expenses in the income statement.

Notes to the financial statements

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15 Group entities

Investments in subsidiaries

Investments in subsidiary undertakings are recorded at cost, which is the fair value of consideration paid.

Company	2013 £'000	2012 £'000
At 30 December 2012 and 29 December 2013	102,985	102,985

The subsidiary undertakings of the Group are:

Subsidiary undertakings	Country of incorporation or registration	Nature of business	(%) Proportion of ordinary shares held by Parent	Group
Hilton Meats (Retail) Limited	Northern Ireland	Specialist meat packing	–	100
Hilton Meats Zaandam BV	Netherlands	Specialist meat packing	–	80
Hilton Foods (Ireland) Limited	Republic of Ireland	Specialist meat packing	–	100
HFG Sverige AB	Sweden	Specialist meat packing	–	100
Hilton Foods Danmark A/S	Denmark	Specialist meat packing	–	100
Hilton Foods Ltd Sp zoo	Poland	Specialist meat packing	–	100
Hilton Foods Limited	Northern Ireland	Holding company	100	–
Hilton Meats Holland Limited	Northern Ireland	Holding company	–	80
Hilton Food Group (Europe) Limited	Northern Ireland	Holding company	–	100
Hilton Foods Asia Pacific Limited	Northern Ireland	Holding company	–	100
Hilton Food.com Limited	Northern Ireland	Dormant	–	100

All subsidiary undertakings are included in the consolidation. The Company's voting rights in its subsidiary undertakings are the same as its effective interest in its subsidiary undertakings.

Investments in joint ventures

The Group uses the equity method of accounting for its interest in joint ventures. The aggregate movement in the Group's investments in joint ventures is as follows:

Group	2013 £'000	2012 £'000
Profit for the period	464	–
Effect of movements in foreign exchange	(59)	–
At 29 December 2013	405	–

Where relevant, management accounts for the joint venture have been used to include the results up to 29 December 2013. The Group's share of the assets, liabilities, income and expenses of the joint venture are detailed below:

	2013 £'000	2012 £'000
Current assets	638	–
Current liabilities	(233)	–
Net assets	405	–
Income	664	–
Expenses	(2)	–
Taxation	(198)	–
Profit after tax	464	–

The joint venture of the Group is:

Joint venture	Country of incorporation or registration	Nature of business	(%) Proportion of ordinary shares held by Parent	Group
Woolworths Meat Co. Pty Ltd	Australia	Specialist meat packing	–	50

16 Inventories

Group	2013 £'000	2012 £'000
Raw materials and consumables	19,247	17,796
Finished goods and goods for resale	4,590	4,089
	23,837	21,885

The cost of inventories recognised as an expense and included in cost of sales amounted to £928,288,000 (2012: £849,747,000). The Group charged £563,000 in respect of inventory write-downs (2012: £150,000). The amount charged has been included in cost of sales in the income statement.

17 Trade and other receivables

	Group		Company	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Trade receivables	110,944	97,190	–	–
Less: provision for impairment of trade receivables	(48)	(51)	–	–
Trade receivables – net	110,896	97,139	–	–
Amounts owed by Group undertakings	–	–	88	115
Amounts owed by related parties (see note 26)	387	326	–	–
Other receivables	8,064	5,146	–	–
Prepayments	5,009	5,200	–	–
	124,356	107,811	88	115

The carrying amount of trade and other receivables is denominated in the following currencies:

	Group		Company	
Currency	2013 £'000	2012 £'000	2013 £'000	2012 £'000
UK Pound	23,511	22,413	88	115
Euro	57,056	43,883	–	–
Swedish Krona	22,572	21,616	–	–
Danish Krone	15,978	13,830	–	–
Polish Zloty	4,852	6,069		
Australian Dollar	387	–	–	–
	124,356	107,811	88	115

The fair values of trade and other receivables are the same as their carrying value. The maximum exposure to credit risk is the fair value of each class of receivable mentioned above.

Trade receivables impaired and the amount of the impairment provision was £48,000 (2012: £51,000). The individually impaired receivables mainly relate to invoices which are in dispute. It was assessed that a portion of the receivables is expected to be recovered. The trade receivables that were impaired were all overdue by more than six months. There were no other trade receivables which were overdue. The other classes within trade and other receivables do not contain impaired assets. The trade receivables which are not impaired or overdue are all less than 30 days old.

Movements on the provision for impairment of trade receivables are as follows:

Group	2013 £'000	2012 £'000
At 30 December 2012	51	46
Provision for receivables impairment	132	147
Receivables written off during the year as uncollectable	(136)	(141)
Exchange differences	1	(1)
At 29 December 2013	48	51

Notes to the financial statements
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18 Cash and cash equivalents

	Group		Company	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Cash at bank and on hand	34,642	31,428	189	30

19 Borrowings

Group	2013 £'000	2012 £'000
Current		
Bank borrowings	10,942	11,369
Finance lease liabilities	162	128
	11,104	11,497
Non-current		
Bank borrowings	16,031	22,456
Finance lease liabilities	2,585	2,677
	18,616	25,133
Total borrowings	29,720	36,630

Due to the frequent re-pricing dates of the Group's loans, the fair value of current and non-current borrowings is approximate to their carrying amount.

The carrying amounts of the Group's borrowings are denominated in the following currencies:

Currency	2013 £'000	2012 £'000
UK Pound	17,375	18,711
Euro	12,345	17,919
	29,720	36,630

Under the new facility signed after the year end borrowings are repayable in quarterly instalments by 2014 – 2018. Interest has reduced from LIBOR or EURIBOR plus 1.75% to 1.60% subject to interest rate caps over £17m of borrowings where LIBOR is capped at 4.5%.

Bank borrowings totalling £26,973,000 (2012: £33,825,000) are secured by fixed and floating charges over the assets of the individual Group borrowers and through joint and several guarantees from each active Group undertaking.

The Group has undrawn overdraft borrowing facilities of £18.3m (2012: £18.2m) which expire after one year.

The undiscounted contractual maturity profile of the Group's borrowings is described in note 3.

The minimum lease payments and present value of finance lease liabilities is as follows:

	Minimum lease payments		Present value	
Group	2013 £'000	2012 £'000	2013 £'000	2012 £'000
No later than one year	358	328	162	128
Later than one year and no later than five years	1,457	1,393	2,585	2,677
Later than five years	2,237	2,562	–	–
	4,052	4,283	2,747	2,805
Future finance charges on finance leases	(1,305)	(1,478)	–	–
Present value of finance lease liabilities	2,747	2,805	2,747	2,805

Lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default. The fair value of the Group's finance lease liabilities is £3,840,000 (2012: £4,028,000). The fair values are based on cash flows discounted using the European Central Bank benchmark main refinancing operations fixed interest rate of 0.25% (2012: 0.75%).

20 Trade and other payables

	Group		Company	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Trade payables	138,527	120,393	–	–
Amounts owed to Group undertakings	–	–	7,225	11,399
Amounts owed to related parties (see note 26)	–	6	–	–
Social security and other taxes	5,151	5,081	–	–
Accruals and deferred income	17,719	16,292	48	2
	161,397	141,772	7,273	11,401

The fair value of trade and other payables are the same as their carrying value.

21 Deferred income tax

Group	Accelerated capital allowances £'000	Other timing differences £'000	Deferred income tax assets total £'000	Deferred income tax liabilities: Accelerated capital allowances £'000
At 2 January 2012	609	525	1,134	(641)
Exchange differences	21	–	21	(12)
Income statement credit/(charge)	161	(53)	108	(926)
Adjustment in respect of employee share schemes	–	(152)	(152)	–
At 30 December 2012	791	320	1,111	(1,579)
Exchange differences	(131)	–	(131)	113
Income statement credit	113	2	115	7
Adjustment in respect of employee share schemes	–	218	218	–
At 29 December 2013	773	540	1,313	(1,459)

Other timing differences principally relate to share based payments. The deferred income tax liability above includes £200,000 (2012: £400,000) which is estimated to reverse within 12 months. The deferred income tax asset above is not expected to reverse within 12 months.

22 Ordinary shares

		Group		Company	
	Number of shares (thousands)	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Issued and fully paid ordinary shares of 10p each					
At 30 December 2012	70,866	7,087	6,985	7,087	6,985
Issue of new shares relating to employee incentive schemes	1,291	129	102	129	102
At 29 December 2013	72,157	7,216	7,087	7,216	7,087

All ordinary shares of 10p each have equal rights in respect of voting, receipt of dividends and repayment of capital.

Notes to the financial statements
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23 Share-based payment

Executive share option scheme

Under the Group's executive share option scheme share options are granted to Executive Directors and to selected senior employees. The exercise price of the granted options is equal to the market price of the shares on the date of the grant. The options are exercisable starting three years from the grant date subject to the Group achieving its target growth in earnings per share over the period plus 3%. The options have a contractual option term of 10 years. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

All employee sharesave scheme

This scheme is open to all eligible employees of the Group (including the Executive Directors) who make regular savings over a three year period. The exercise price of the granted options is equal to the market price of the shares on the date of the grant. The options are exercisable starting three years from the grant date and must be exercised within six months thereafter. No performance conditions are attached to the options granted under the scheme.

Long Term Incentive Plan (LTIP)

Under the Group's Long Term Incentive Plan nil cost share options are granted to Executive Directors and to selected senior employees. The options are exercisable starting three years from the grant date subject to the Group achieving a minimum earnings per share compound growth target. Awards will vest on a sliding scale with 25% of the maximum award applied at the minimum EPS growth target of 5%–6% per year with the full award vesting where EPS growth is at least 10%–14.5% per year. The options have a contractual option term of 10 years. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

Movements in the number of share options outstanding and their related exercise prices are as follows:

	Executive share option		Sharesave		Long Term Incentive	
	Options ('000)	Exercise price (pence)	Options ('000)	Exercise price (pence)	Options ('000)	Exercise price (pence)
At 2 January 2012	3,460	203.47	665	173.57	–	–
Granted	–	–	–	–	1,147	–
Exercised	(640)	191.54	(377)	147.00	–	–
Forfeited	(46)	234.55	(110)	147.00	–	–
At 30 December 2012	2,774	205.70	178	246.00	1,147	–
Granted	–	–	–	–	759	–
Exercised	(1,169)	198.95	(122)	246.00	–	–
Forfeited	(4)	246.00	(56)	246.00	–	–
At 29 December 2013	1,601	210.54	–	–	1,906	–

Share options outstanding at the end of the year have the following expiry date and exercise prices:

				Number options	
Expiry date	Type of scheme	Status	Exercise price (pence)	2013 ('000)	2012 ('000)
December 2013	Sharesave	Exercisable	246.00	–	178
May 2018	Executive share option	Exercisable	199.50	385	762
May 2019	Executive share option	Exercisable	174.75	546	1,072
May 2020	Executive share option	Exercisable	246.00	670	940
June 2022	Long Term Incentive Plan	Not exercisable	nil cost	1,147	1,147
May 2023	Long Term Incentive Plan	Not exercisable	nil cost	759	–

The fair value of options granted during 2013 determined using the Black-Scholes valuation model was 303p per option. The significant inputs into the model were the exercise price shown above, volatility of 31% based on a comparison of similar listed companies, dividend yield of 4%, an expected option life of four years, and an annual risk-free interest rate of 1.69%. See note 8 for the total expense recognised in the income statement for share options granted to Directors and employees.

24 Cash generated from operations

Group	2013 £'000	2012 £'000
Profit before income tax	24,872	24,712
Finance costs – net	902	1,255
Operating profit	25,774	25,967
Adjustments for non-cash items:		
Share of post tax profits of joint venture	(464)	–
Depreciation	15,101	14,041
Amortisation of intangible assets	469	336
Loss on disposal of non-current assets	–	39
Adjustment in respect of employee share schemes	83	285
Changes in working capital:		
Inventories	(1,835)	549
Trade and other receivables	(15,983)	(3,653)
Prepaid expenses	191	(718)
Trade and other payables	17,025	2,650
Accrued expenses	1,427	1,186
Cash generated from operations	41,788	40,682

The parent company has no operating cash flows.

25 Commitments

(a) Capital commitments

Capital expenditure contracted for at the balance sheet date but not yet incurred is as follows:

	Group		Company	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Property, plant and equipment	19,766	451	–	–

(b) Operating lease commitments

The Group leases various properties under non-cancellable operating lease arrangements.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	Land and buildings		Plant and equipment	
Group	2013 £'000	2012 £'000	2013 £'000	2012 £'000
No later than one year	6,358	7,189	687	883
Later than one year and no later than five years	17,855	15,641	1,359	1,792
Later than five years expiring 2018 to 2023	21,616	5,925	17	23
	45,829	28,755	2,063	2,698

Notes to the financial statements

continued

26 Related party transactions and ultimate controlling party

The Directors do not consider there to be one ultimate controlling party. The companies noted below are all deemed to be related parties by way of common Directors.

Sales and purchases made on an arm's length basis on normal credit terms to related parties during the year were as follows:

	Sales		Purchases	
Group	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Hilton Meats (International) Limited	–	1,673	–	61,724

During the year joint venture costs totalling £1,794,000 (2012: £nil) were recharged to Woolworths Meat Co. Pty Ltd.

Amounts owing from and to related parties at the year end were as follows:

	Owed from related parties		Owed to related parties	
Group	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Hilton Meats (International) Limited	–	326	–	6
Woolworths Meat Co. Pty Ltd	387	–	–	–
	387	326	–	6

The Company's related party transactions with other Group companies during the year were as follows:

Company	2013 £'000	2012 £'000
Hilton Foods Limited – dividend received	9,750	9,500
Hilton Foods Limited – interest expense	229	356
Hilton Meats (Retail) Limited – payment for group relief	88	115

At the year-end £7,225,000 (2012: £11,399,000) was owed to Hilton Foods Limited and £88,000 (2012: £115,000) was owed by Hilton Meats (Retail) Limited.

Details of key management compensation are given in note 8.

27 Financial instruments by category

The accounting policies for financial instruments have been applied to the line items below:

	Loans and receivables	
Group	2013 £'000	2012 £'000
Assets as per balance sheet		
Trade and other receivables	119,347	102,611
Cash and cash equivalents	34,642	31,428
	153,989	134,039

	Other financial liabilities at amortised cost	
Group	2013 £'000	2012 £'000
Liabilities as per balance sheet		
Trade and other payables	156,246	136,691
Borrowings	29,720	36,630
	185,966	173,321

In addition to the above, amounts owed to the Company by Group undertakings of £88,000 (2012: £115,000) are classified as 'loans and receivables' and amounts owed by the Company to Group undertakings of £7,225,000 (2012: £11,399,000) are classified as 'other financial liabilities at amortised cost'.

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