

**The specialist  
international retail  
meat packing business**

Annual report  
and financial statements

**2014**



# Hilbon Food Group pleases Annual report and financial statements 2014



**Hilton Food Group plc, the specialist retail meat packing business supplying major international food retailers in thirteen European countries and Australia, announces its results for the 52 weeks ended 28 December 2014.**

During 2014 Hilton made sound progress in underpinning its future growth strategy, including the continued development of our Australian joint venture and the major UK capacity expansion. The high level of investment made in our meat packing facilities in 2014 was essential to facilitate the Group's planned future growth. We will continue to seek out available opportunities to progressively and profitably expand the scale and scope of our operations, employing a business model that remains resilient, relevant and internationally transferable.

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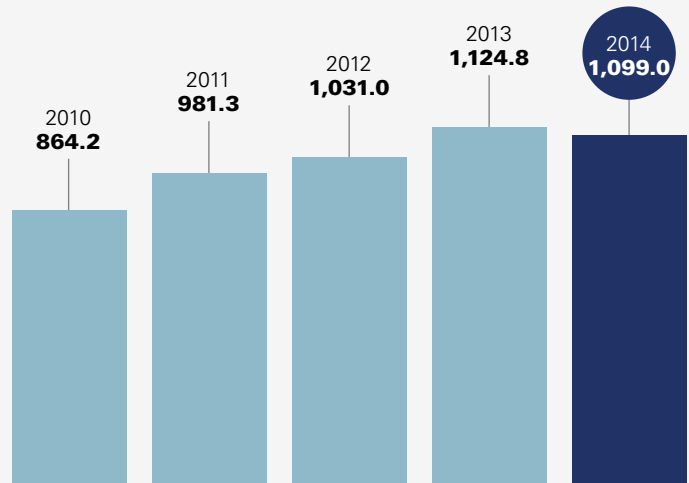
## Highlights

A financial track record  
of growth and profitability.

Revenue (£m)

**£1,099.0m**

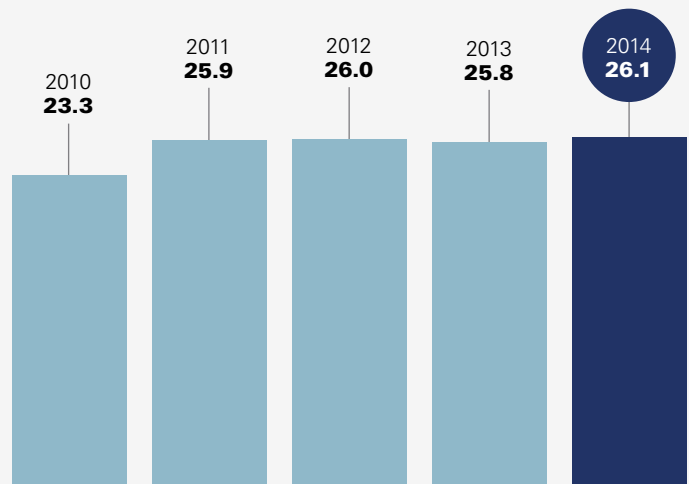
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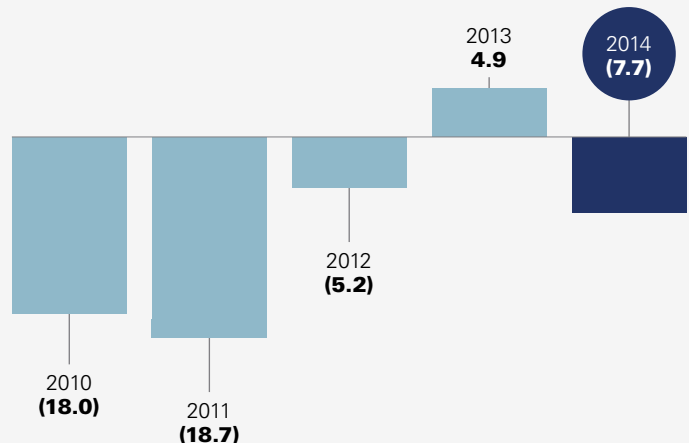
Operating profit (£m)

**£26.1m**

+1.1%



Closing net (debt)/cash (£m)

**£(7.7)m**

## Strategic highlights

- Our joint venture with Woolworths Limited in Australia is performing well. The conversion of the Bunbury site in Western Australia to substantially increase retail packed meat production was successfully completed in the first half of 2014.
- Construction of a new dedicated retail packed meat facility, near Melbourne in Victoria, to be operated by our joint venture with Woolworths is on schedule to commence production in the third quarter of 2015.
- Investment to modernise and expand the capacity of the Group's Huntingdon site in the UK and service increased volumes for Tesco is well advanced, with the new production facilities fully commissioned.

## Operating highlights

- Volume growth of 3.5%, with growth in the UK and Holland partly offset by continuing pressure on consumer spending in other countries.
- Revenue reduced by 2.3%, reflecting both the impact of unfavourable movements in exchange translation of 4.6%, with Sterling appreciating materially against all the overseas currencies in which the Group trades, and of lower raw material meat prices flowing through into reduced selling prices.
- Operating profit at £26.1m ahead of last year (2013: £25.8m) despite an increased level of start-up costs in the UK and the impact of unfavourable movements in exchange translation.
- Substantially higher investment in the year at £43.3m (2013: £18.4m) covering major re-investment programmes in the UK and Sweden.
- A free cash outflow of £2.1m (compared to an inflow of £17.0m in 2013) reflecting the £24.9m increase in the level of investment expenditure, with net debt at £7.7m at the year end.
- A strong balance sheet providing a solid platform both for 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**

### Sweden

Location:  
**Vasteras**  
Customer:  
**ICA**  
Commenced production:  
**2004**

### United Kingdom

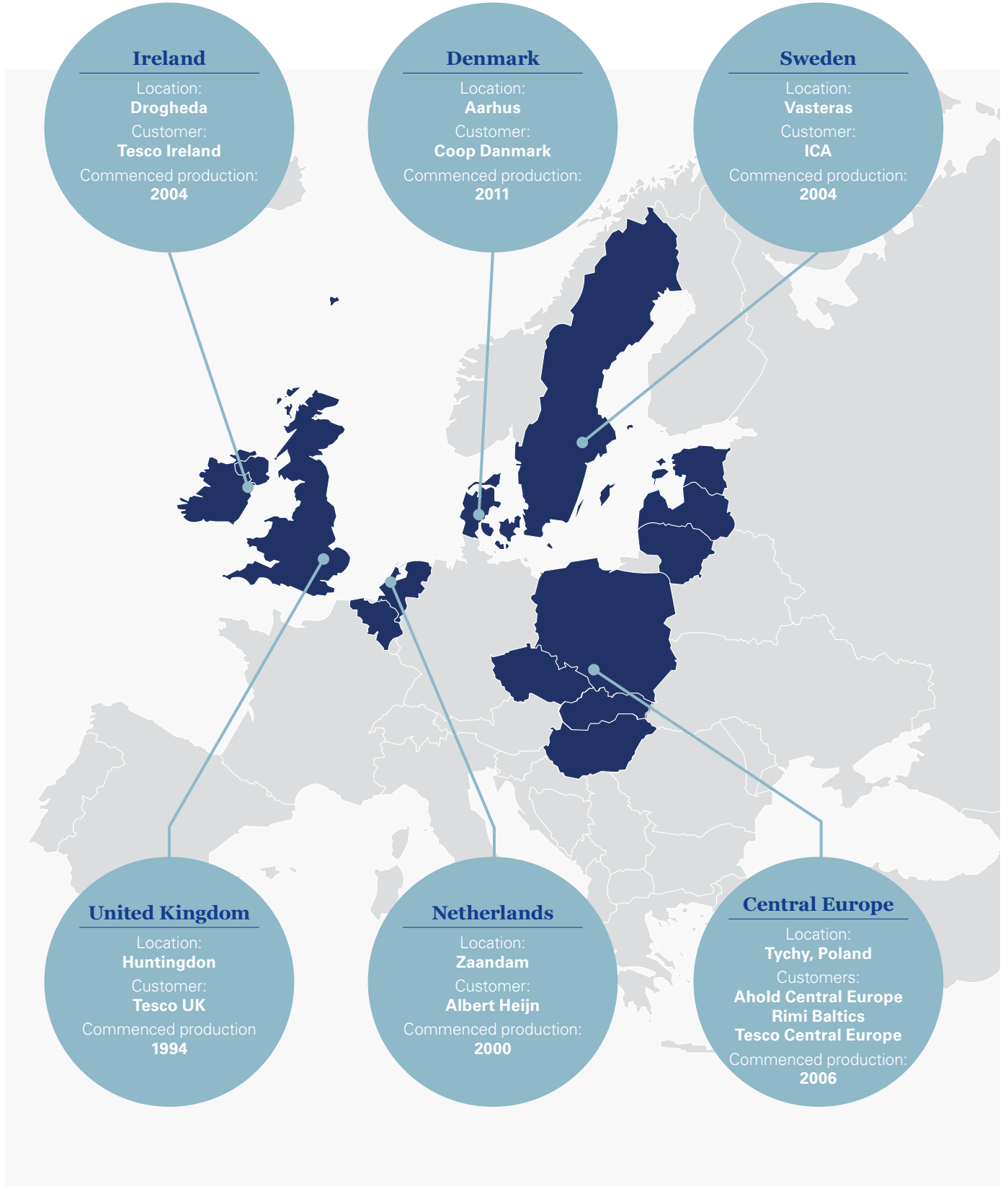
Location:  
**Huntingdon**  
Customer:  
**Tesco UK**  
Commenced production  
**1994**

### Netherlands

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

### Central Europe

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



**Australia**

Location:  
**Bunbury**  
Customer:  
**Woolworths**  
Commenced joint  
venture:  
**2013**

**We are a leading specialist meat packing business supplying major international food retailers.**

**Australia**

Location:  
**Melbourne**  
(under construction)



# Strategic report

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## Chairman's introduction

# 2014 was a year of investment, well positioned for future growth.

**Sir David Naish DL**  
Non-Executive Chairman



### **The format of our Annual report**

Our Annual report comprises three parts, a Strategic report followed by a Governance section and the Financial statements. The Strategic report includes a review of our business model, outlines our strategy and objectives and covers our geographical footprint, our people, the development of our businesses in 2014 and our summary of some key past and potential future trends. This is followed by a financial analysis of our trading during 2014 and our position at the end of that year, consideration of our risk management strategy and our Corporate and social responsibility report.

### **Strategic progress achieved in 2014**

The Group made continued strategic progress during the year. The initial task of the joint venture with Woolworths in Australia was the conversion of Woolworths' existing meat processing facility at Bunbury in Western Australia, in order to substantially increase production of retail packed product lines. This was completed as planned in early 2014, with the new product lines being well received by the local market.

The construction of a new meat processing facility for Woolworths near Melbourne in Victoria, which will be operated by our joint venture company, remains on schedule, with production currently targeted to commence in the third quarter of 2015. This represents a major milestone in the continuing development of our joint venture.

Having announced last year a long term supply agreement with Tesco for the UK, under which the volumes supplied by Hilton are planned to increase substantially, a major investment programme was undertaken at the Group's UK site in Huntingdon during 2014. This involved both a material extension of the site's processing and packing capacity, the addition of a further production unit and the streamlining and modernization of the complete facility. The level of start-up costs involved in executing this complex project around a live production environment was higher than initially expected, but the project is now well advanced with the new production facilities fully commissioned.

### **Board composition**

The Board is responsible for the long 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 wide range of countries. There have been no changes in Board membership during 2014 and I would like to take this opportunity to thank my colleagues on the Board for their continued support, sound counsel and expertise.



## State of the art packing facilities in six European countries

### Group performance and dividend policy

Further volume growth was achieved during 2014, despite challenging market conditions. Notwithstanding the higher than expected start-up costs incurred in connection with the Huntingdon redevelopment and the material impact of adverse exchange translation movements, continued profit progress was achieved in 2014.

The Group's net income in 2014 at £18.1m was slightly higher than in 2013 (£17.8m), with basic earnings per share at 25.0p in line with last year. Hilton has continued to generate significant cash flow during 2014 which enabled the Group to keep net borrowings at modest levels, despite a £24.9m increase in the level of investment expenditure.

During 2014 we made major new investments to secure the Group's future growth potential. The principal items of expenditure involved the redevelopment of the Group's facilities in Huntingdon to enable the planned UK volume increases for Tesco and a re-investment programme at Vasteras in Sweden to replace production lines at the end of their economic life with state of the art equipment designed to achieve higher line speeds, reduced manning requirements and reduced unit packing costs.

The Group has maintained a progressive dividend policy since flotation and the Board considers that this remains appropriate given both the continued strategic progress achieved in 2014 and Hilton's continuing level of cash generation. The 4.4% increase proposed in the final dividend for 2014 will increase the total dividends paid in respect of 2014 by 4.3%, 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 12 May 2015 at noon and my colleagues and I very much look forward to seeing many of you there.

**Sir David Naish DL**  
Non-Executive Chairman  
24 March 2015



## Chief Executive's summary

# The strength of our long term partnerships is a key driver of our growth.

**Robert Watson** OBE  
Chief Executive Officer



### Business model

Our business model is simple and straightforward. We operate large scale, highly mechanised, extensively automated and robotised 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 multiple retailers in order to achieve critical mass, in terms of volumes supplied and the consequent ability to achieve competitive unit packing costs.

Raw material meat is sourced, in conjunction with our retail partners, from a wide international base of proven suppliers. 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 in recent years 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 enhanced by specialist central leadership, advice and support. These businesses 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 serves to maximise 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.

Under the long term agreements we have in place with our customers the parameters of our revenue are clearly defined. As well as income derived from the supply of retail packed meat products there are also provisions whereby our income can be increased or decreased subject to achievement of certain pre-agreed and pre-defined performance measures and targets.

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, with a pipeline of clear identifiable cost initiatives and a willingness to continually challenge the status quo. We consider our modern, very well invested facilities to be a key factor in keeping unit packing costs as low as possible. Over the decade to December 2014 we have invested continuously across all areas of our business, including 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 nearly £200m.

We are a 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 whilst providing agile responses to supply chain challenges as they arise. As our customers' markets change and competition increases, we need to keep a constant focus on the challenges they face so as to be able to put forward flexible solutions, together with continuing increases in efficiency and cost competitiveness.

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 continues to indicate that our business model can be successfully transferred to a number of new countries.



## A reduced risk business model



## Chief Executive's summary continued

Year	Country	Location	Customers
1994	UK	Huntingdon	Tesco UK
2000	Holland	Zaandam	Albert Heijn
2004	Ireland	Drogheda	Tesco Ireland
2004	Sweden	Vasteras	ICA
2006	Central Europe	Tychy, Poland	Ahold (2006) Tesco (2007) Rimi (2009)
2011	Denmark	Aarhus	Coop Denmark
2013	Australia	Bunbury, Brisbane and Melbourne	Woolworths

# 66%

of the Group's turnover was earned in countries outside the UK

### Strategy and objectives

Our strategy is designed to support our customers' brands and their development in their local markets, whilst achieving attractive and sustainable rates of growth in value for our shareholders. This single minded approach has generated growth over an extended period of time and, with a strong reputation, well invested modern facilities and a robust balance sheet, the Group remains well positioned 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;
- Optimising the use of our assets and investing in new technology;
- 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 considered geographical expansion, whilst at the same time 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.

### Geographical footprint

The Group's rapid 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 successful retail partners.

The seven countries in which the Group currently has production facilities, with the dates operations commenced in each country, are set out left.

The facility in Tychy supplies Ahold stores in Czech Republic and Slovakia, Tesco stores in Hungary, Czech Republic, Poland and Slovakia and Rimi stores in Latvia, Lithuania and Estonia. The facility at Zaandam also supplies Albert Heijn stores in Belgium.

The joint venture with Woolworths in Australia involves the joint venture company managing Woolworths' meat processing and packing facilities at Bunbury in Western Australia and Brisbane in Queensland and, from the third quarter of 2015, a greenfield state of the art meat packing facility near Melbourne, in Victoria.

In 2014, 66% of the Group's turnover was earned in countries outside the United Kingdom, together with 75% of the volumes of meat delivered. These percentages have declined since last year, reflecting the increase achieved in sales in the UK during 2014.

The wide geographical spread increases the Group's resilience by minimising its dependence on the fortunes of any one individual economy, but makes its results reported in Sterling sensitive to changes in the value of Sterling as compared to the range of overseas currencies in which the Group trades. During 2014 Sterling strengthened materially against all the other currencies in which the Group trades, expressed as an average for the year as follows:

- Euro +5.3%
- Danish Krone +5.3%
- Swedish Krona +10.8%
- Polish Zloty +5.0%
- Australian Dollar +12.6%

### People

We believe that successful businesses are all about having the right people in the right positions at the right time working together as 'one team', with local management teams empowered, encouraged and advised in specialist areas to enable them to support their local customers. The Group benefits from each of its businesses being part of a larger organisation, which enables them to share best practice solutions across country boundaries, including equipment selection, IT solutions and ways of working along with the collaborative sharing of new learnings and techniques.

We are committed to providing an inclusive working environment where everyone feels valued, respected and able to fulfil their potential. We recognise that people from different backgrounds, countries, experiences and abilities can bring benefits to our business. We fully recognise the benefits of gender diversity and details of the gender composition of our staff are set out in our Corporate and social responsibility report on page 28.

The Group currently employs 2,541 employees, in six European countries. Our business model is, as previously described, largely decentralised, with capable, largely self-sufficient management teams running our businesses in each local country. We consider this devolved structure to be essential, as it achieves very close working relationships with our customers, who benefit from dedicated, flexible and rapid local support.

The Board fully understands and appreciates just how much our progress relies on the effort, personal commitment, enthusiasm, enterprise and initiative of our employees. I would like to take this opportunity, on behalf of the Board, to personally thank all of them both for their dedicated efforts during 2014 and their continuing commitment to the Group's on-going growth and development.

**Hilton continues to support innovation across its markets and is well placed to capture growth opportunities as we expand our footprint.**



## Chief Executive's summary continued

### Business development

Our business comprises three separate operating segments:

#### Western Europe

Operating profit of £27.1m (2013: £27.9m) on turnover of £1,016.8m (2013: £1,028.7m)

This operating segment covers the Group's businesses in the UK, Ireland, Holland, Sweden and Denmark. Volume growth of 5.5% was achieved in 2014, reflecting volume growth in the UK and Holland, driven respectively by gaining an increased share of our customers' business with expanded meat packing capacity and the introduction of new product lines. Volumes in Ireland and Denmark were reduced with consumer spending remaining under continuing pressure whereas in Sweden volumes remained relatively steady. Turnover declined by 1.2%, reflecting the impact of adverse exchange translation movements and lower raw material meat prices resulting in reduced selling prices.

The robotic store order picking facility for Coop Denmark which handles, in addition to our own production, a range of third party Coop products such as poultry, has continued to build volumes. 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 is being incorporated into the new Melbourne meat packing facility for Woolworths due to commence production in the third quarter of 2015.

The redevelopment of the Huntingdon site was a complex project involving the re-equipment and re-alignment of the site and the addition of a further production area whilst working around a live production environment with the highest customer service levels needing to be maintained throughout the process. Similarly the re-equipment of the Vasteras site in Sweden has faced the same challenges. Although the level of start-up and disturbance costs at Huntingdon has been higher than had previously been expected, both projects have been executed successfully.

#### Central Europe

Operating profit of £2.4m (2013: £2.5m) on turnover of £82.2m (2013: £96.1m)

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 2014 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 6.8% in 2014, and, reflecting the impact of lower raw material meat prices and unfavourable exchange rate movements, turnover decreased by 14.5%.

The resumption in due course of volume growth combined with an unremitting 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 £3.4m (2013: £4.6m)

This segment includes our share of the management fee earned by our joint venture with Woolworths of £1.3m (2013: £0.5m), start-up costs in connection with the joint venture of £0.9m (2013: £1.4m) and central costs of £3.8m (2013: £3.7m).

In Australia the Group is involved in a joint venture with Woolworths, under which it earns a fifty per cent share of the agreed management 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.

The joint venture company is currently responsible for the operation of Woolworths' Western Australian meat processing centre in Bunbury the conversion of which has enabled a substantial increase in retail packed meat production. This was completed in the early months of 2014. The building of a purpose built retail packing facility near Melbourne in Victoria, which will be operated by the joint venture company, is on schedule and expected to commence production in the third quarter of 2015.

## Key past and anticipated future trends

As the larger retail chains have progressively gained a greater share of the grocery markets in most countries, they have increasingly turned to large scale, centralised meat packing solutions capable of producing private label packed meat products more safely and cost effectively. In doing so, they have rationalised their supply base, achieving lower costs with 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' continuing requirement for quality and value.

Grocery retail markets are expected to remain extremely competitive, with continuing pressure on consumer expenditure. The trend towards increased use of centralised meat packing solutions is still continuing, however, albeit at different speeds across the world. This gives rise to a wide range of potential future geographical expansion opportunities for Hilton, but inevitably in a range of different timescales.

Within retail markets patterns are also changing fairly rapidly, with increased internet based ordering and a 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 and discount outlets, to shop more frequently for a reduced overall basket cost per visit. These developments which may be structural rather than cyclical will all tend to re-inforce the overall trend towards retail packed meat, as this is the meat offering in all these growth areas. However they do pose logistical challenges and opportunities for the retailers, given the increasing need to be able to deliver smaller drop sizes on a cost efficient basis.

## Current trading and outlook

With the completion of the capacity expansion and site redevelopment investment at Huntingdon in the UK and the planned start of production with our Australian joint venture partner near Melbourne in the third quarter of the year, Hilton's medium term growth prospects remain encouraging. The shorter term economic outlook in our European markets continues to be, however, challenging, with consumer spending likely to remain constrained, despite a slightly better overall economic outlook in some countries aided in part by recently reduced oil prices.

During 2014 Sterling appreciated against all the currencies in which the Group trades. It has strengthened further in the early months of 2015 and, whilst future currency movements are inevitably difficult to forecast, they can have a material translational impact on the Group's profit performance expressed in Sterling, with over two thirds of Hilton's operating profit being earned in currencies other than Sterling.

In the early months of 2015 Hilton's operating performance has been in line with the Board's expectations. The Group's business model has proved resilient over recent difficult trading conditions and the Board expects to make continued progress.

**Robert Watson OBE**  
Chief Executive Officer  
24 March 2015

## Performance and financial review

### Hilton's financial performance was robust.

**Nigel Majewski**  
Finance Director



#### Financial review

Hilton's financial performance was robust in 2014, despite headwinds from adverse currency movements, higher than expected start-up costs and a continued challenging economic environment across Europe. Substantial capital investment was made during 2014 at the Group's Huntingdon and Vasteras sites to increase capacity and cost efficiency. Despite investing £43.3m in the year, principally at these two facilities, year-end debt was restricted to a modest level. These investments, together with a continuing strong cash flow, leave 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 2014.

#### Basis of preparation

The Group is presenting its results for the 52 week period ended 28 December 2014, with comparative information for the 52 week period ended 29 December 2013. The financial statements of the Group are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

#### 2014 financial performance

##### Revenue

Volumes grew overall by 3.5% with strong volume increases in the UK and Holland offset by volume reductions in Ireland, Denmark 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 fell by 2.3% to £1,099.0m, as compared to £1,124.8 m in 2013, reflecting unfavourable exchange rate movements and the effect of lower raw material prices on selling prices.

##### Operating profit and margin

Operating profit, at £26.1m was above the previous year's level (2013: £25.8m) after bearing increased start-up costs incurred in the UK and the impact of adverse exchange translation movements. The operating profit margin in 2014 was 2.4%, as compared with 2.3% in 2013, reflecting both the higher operating profit level and the impact of lower raw material meat prices, which do not under all Hilton's pricing arrangements give rise to a corresponding margin decrease. Operating profit per kilogram of packed meat sold was 11.3p (11.5p in 2013).

##### Net finance costs

With careful management, net finance costs, at £0.9m, were in line with the previous year's level (2013: £0.9m) despite the increase in debt levels over the second part of the year. Interest rates paid have remained at historically low levels, reflecting continuing low LIBOR and other Interbank rates, which determine the interest rates on the Group's principal borrowings. Interest cover in 2014 increased marginally to 30 times, as compared with 29 times in 2013.

**Taxation**

The taxation charge for the period was £5.6m (2013: £5.5m). This represented an effective taxation rate of 22.4% (2013: 22.2%) reflecting the fact that a lower proportion of the Group's overall taxable profits were earned in low corporate tax regimes such as those of Ireland and Poland.

**Profit for the year**

Profit for the year, at £19.6m, (2013: £19.4m) was slightly higher than last year reflecting the increase in operating profit partly offset by a slightly higher effective rate of taxation.

**Earnings per share**

Basic earnings per share at 25.0p (2013: 25.0p) were in line with last year, with a 1.4% increase in the level of net income being fully 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 24.7p (2013: 24.8p).

**Free cash flow and net borrowing levels**

Cash flow remained strong in 2014, with the Group incurring a £2.1m free cash out flow before dividends and financing, after incurring capital expenditure of £43.3m. This represented an inflow reduction of £19.1m as compared with last year, after an increase in capital expenditure levels of £24.9m. Group borrowings were £43.3m at the end of 2014 and, with net cash balances of £35.6m, this resulted in a closing net debt position of £7.7m, as compared with a net cash level of £4.9m at the end of 2013. At the end of 2014 the Group had undrawn overdraft and loan facilities of £46.5m (2013: £18.3m).

Despite the major strategic investments made in 2014, the Group had modest gearing at the end of 2014, with a net debt to EBITDA ratio of 18%; this strong financial position gives the Group considerable flexibility for potential future expansion.

**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 9.5p per ordinary share in respect of 2014. This, together with the interim dividend of 3.8p per ordinary share paid in November 2014, represents a 4.3% increase in the full year dividend, as compared with last year. The final dividend, if approved by shareholders, will be paid on 26 June 2015 to shareholders on the register on 29 May 2015 and the shares will be ex dividend on 28 May 2015.

**£19.6m**profit for  
the year**£43.3m**of investment  
expenditure

## 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 headline 'KPIs' used by the Board for this purpose, together with our performance over the last two years, is set out below.

Although these KPIs are measured separately, the relationship between them is also monitored. In addition, a wider range of KPIs are continuously tracked at business unit level.

### Financial KPIs

# (2.3)%

#### Revenue growth (%)

2013: 9.1%

##### Definition, method of calculation and analysis

Year on year revenue growth expressed as a percentage. The 2014 decrease reflected volume growth of 3.5%, which was more than offset by the impact of unfavourable exchange translation rate movements (which decreased revenue by 4.6%) and the lower raw material prices, which reduced selling prices.

# 2.4%

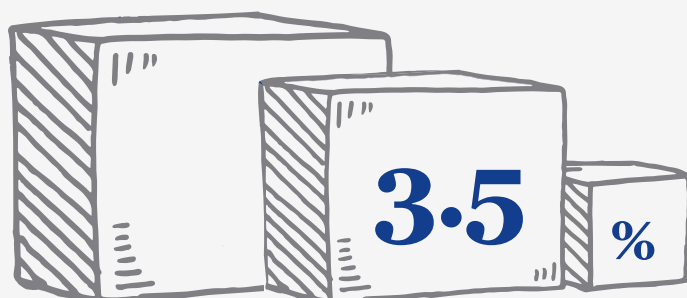
#### Operating profit margin (% turnover)

2013: 2.3%

##### Definition, method of calculation and analysis

Operating profit expressed as a percentage of turnover. The increase in 2014 reflected an increased underlying operating profit level which more than offset the higher start-up costs incurred in the UK and the lower level of raw material meat prices which do not in all Hilton's contractual arrangements feed directly through to correspondingly decreased margins.

### Non-financial KPIs



#### Growth in volume of packed meat sales (%)

2013: 2.0%

##### Definition, method of calculation and analysis

Year on year volume growth, expressed as a percentage.

11.3p



Operating profit margin  
(pence per kg)

2013: 11.5p/kg

**Definition, method of calculation and analysis**  
Operating profit per kilogram sold.

£(2.1)m

Free cash flow before  
minorities (£m)

2013: £17.0m

**Definition, method of calculation and analysis**  
Cash out flow before dividends and financing after bearing  
£43.3m of capital expenditure in 2014,  
compared with £18.4m in 2013.

£41.7m

Earnings before interest,  
taxation, depreciation and  
amortisation (EBITDA) (£m)

2013: £41.3m

**Definition, method of calculation and analysis**  
Operating profit before depreciation, amortisation and  
government capital grants, with higher depreciation charges being  
offset by the impact of unfavourable exchange rate movements.

Gearing ratio (%)

2013: N/A

18%

**Definition, method of calculation and analysis**  
Year-end net debt as a percentage of EBITDA.  
Despite major capital expenditure in 2014 the Group's  
gearing remains modest. The Group was ungeared at  
the end of 2013, with a net cash position.

39.3p/kg

Employee and  
labour agency costs  
(pence per kg)

2013: 40.1p/kg

**Definition, method of calculation and analysis**  
◀ The decrease reflects continuing  
efficiency gains and low levels of  
wage inflation.

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

99.0%

Customer service  
level (%)

2013: 98.3%

## Performance and financial review continued

**A good underlying performance resulting in strong cash generation.**

### **Treasury management**

Hilton does not engage in any 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 businesses, 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, two thirds of its revenues are earned in other currencies, currently principally the Euro, Swedish Krona, Danish Krone and Australian Dollar. 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 by dividend payments 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, but this policy is kept under continuing review and may be reappraised over time 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 and joint venture.

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 some 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 and other Interbank rates which 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

This has for many businesses represented a significant area of concern over recent years, given the continuing difficult and uncertain economic environment and liquidity constraints across banking systems in Europe. The Hilton Food 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 cautionary statements

### Going concern basis

The Group's bank borrowings are detailed in the financial statements and the principal banking facilities, which support the Group's existing and contracted new business, are committed, with no renewal required for four 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 forward 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 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 based on current knowledge, 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  
24 March 2015



## Risks and risk management

As a leading food processor in a fast moving environment it is critical that the Group identifies, assesses and prioritises its risks. This, together with the adoption of appropriate risk mitigation strategies, enables us to monitor, minimise and control both the probability and potential impact of these 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. Responsibility for risk management across the Group resides with the Board which believes that 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, as the delivery of our strategy depends on our ability to make sound risk-informed decisions.

### The most significant risks the Group faces

The six most significant identified business risks the Group faces, are, as might be expected with a relatively straightforward business model, unchanged from previous years. These risks, which will continue to affect the Group's businesses, together with the measures we have adopted to mitigate these risks, are outlined 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, as viewed from the standpoint of the Group as a whole.

#### Description of risk

**The Group is dependent on a small number of customers who can exercise significant buying power and influence.**

#### Its 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 2014. The larger retail chains have over many years continued to increase their market share of meat products in many countries, as customers continue to move away from high street butchers towards one stop convenience shopping in supermarkets. This has increased 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 measures and strategies adopted

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 partners in each country, in order 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.

#### Description of risk

**The Group's growth potential is dependent on the success of its customers and the growth of their packed meat sales.**

#### Its potential impact

The Group's products carry the brand labels of the customer to whom packed meat is supplied and it is accordingly dependent on its customers' success in maintaining or improving consumer perception of their own brand names and packed meat offerings.

#### Risk mitigation measures and strategies adopted

The Group plays a very proactive 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 are 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 in the supply chain.

**Description of risk**

**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.**

**Its 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 measures and strategies adopted**

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 continued 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.

**Description of risk**

**The Group's business is reliant on a small number of key personnel and its ability to manage growth and change successfully.**

**Its 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 measures and strategies adopted**

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.

**Description of risk**

**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.**

**Its 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 but has not done so in recent years.

**Risk mitigation measures and strategies adopted**

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.

**Description of risk**

**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.**

**Its 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 measures and strategies adopted**

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.

## Risks and risk management continued

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 skillfully 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 above, 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. It must be realised that systems of internal control are designed to manage rather than completely eliminate any identified risks.

# 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. 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. We recognise that correct product label information is key to gaining consumer trust and that the label correctly describes the provenance of the meat including its 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.

During 2014 the Elliott Review into the Integrity and Assurance of Food Supply Networks was published concluding that the food industry must above all else demonstrate that having a safe, high integrity food system for the UK is their main responsibility and priority. This report proposed eight pillars of food integrity as the basis for a national food crime prevention framework. Hilton strongly supports the findings in this report and we agree with Professor Elliott's comments that "an industry focus on developing shorter supply chains and on sourcing locally produced foods in long term partnerships is of enormous importance in terms of having a more resilient, higher integrity UK food system which will strengthen our nation's food security".

## 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 and we work closely with suppliers and the farming community to this end. 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 the meat that we use.

## Flexible local and global meat sourcing

As specialist retail meat packers, Hilton can source its primal meat requirements from the most advanced abattoir plants to exacting specifications, ensuring quality and 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 play a large part in the consistent achievement of meat quality and influence 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 pricing.

## Farm standards

Good quality meat can only be produced from animals reared and handled to the best animal welfare standards. Freedom from stress is a fundamental requirement not only for ethical and sustainable reasons, but also to achieve consistent meat quality for consumers. Farmers design animal nutrition plans to achieve efficient weight gain and meet consumer preferences on flavour and fat content. We strive to improve the cleanliness of animals presented for slaughter which has a direct impact on the reduction of 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

## Corporate and social responsibility report continued

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 testing methods, 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 including increasing use of DNA testing. Results are used to assess the performance of suppliers and achieve continuous improvement.

### Retail packing at Hilton

We recognise that the key factors in ensuring that our retail partners receive products that consistently achieve agreed shelf lives and meet customer expectations are top quality meat from our suppliers, temperature control and high class standards of hygiene.

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.

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 ISO/TS 22002-1 or the latest BRC (British Retail Consortium) Global Standard for Food Safety 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. 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. Our training programme includes completion of a Masters Degree in Food Science following which our trained graduates are placed into key management roles. We maintain strong links with academia and technological advances including Campden BRI and through 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 2014 we received a number of national food and taste awards. New products launched included gourmet burger kits and brontosaurus steaks as well as supporting our customers' expansion of local and organic 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 <sub>2</sub> e	
	2014	2013
Scope 1	7,977	8,162
Scope 2	21,187	21,466
<b>Total</b>	<b>29,164</b>	<b>29,628</b>

	Tonnes of CO <sub>2</sub> e per tonne of product	
2014	0.13	
2013	0.13	
2012	0.13	

### 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:

	Cm <sup>3</sup> of water use per tonne of product
2014	1.46
2013	2.04
2012	2.09

### Waste and packaging

It is estimated that 15 million tonnes of food is wasted each year in the UK of which 9 million tonnes is avoidable and we agree this is economically, socially and environmentally unacceptable. Although Hilton's meat products are perishable having limited shelf life we do our bit by working hard with our retail partners to ensure that waste is minimised and products are available for purchase and consumption for as long as possible before the end of that shelf life.

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.

Through the necessary use of packaging our products benefit from an extended shelf life thereby reducing food waste. This benefit offsets the environmental impact of the packaging materials and energy used in its manufacture. Hilton is committed with its retail partners to adopt best practices in 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 2014 are shown as follows:

	Average number of employees	Serious accidents	Recorded accidents per 100,000 hours worked	Sickness rate (%)
2014	2,447	33	5.2	4.5%
2013	2,243	32	6.4	4.9%
2012	2,213	26	5.5	5.3%

# Corporate and social responsibility report continued

## 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.

Directors	7	Total	7
Senior managers	49	14	Total 63
Employees	1,706	835	Total 2,541

■ Male ■ Female

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.

## 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 2014, Hilton made charitable donations amounting to £30,000 (2013: £29,000) 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 6 to 28 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.

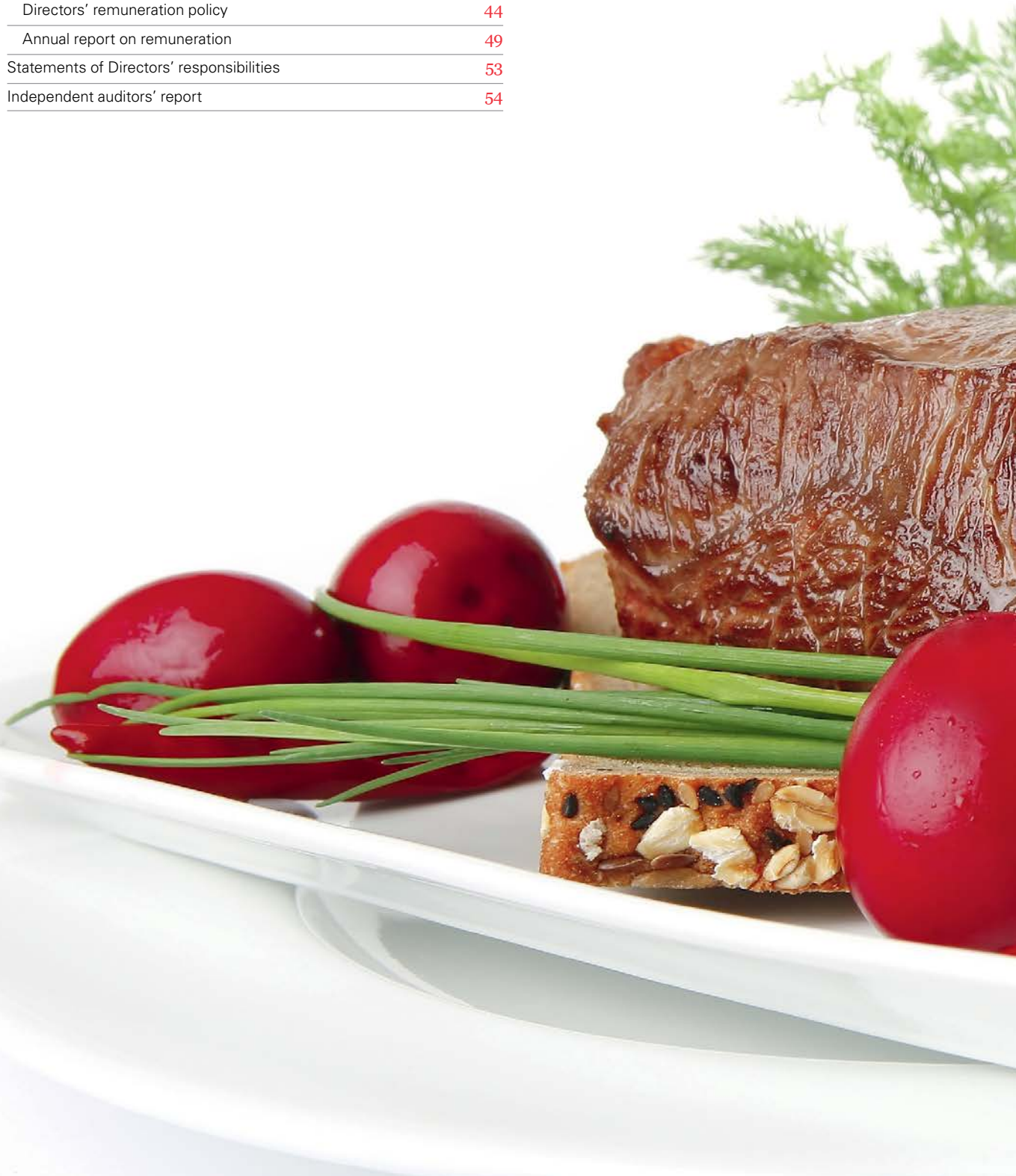
Approved by order of the Board of Directors

**Neil George**  
Company Secretary  
24 March 2015



# Governance

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## 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 Foods UK 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.

**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 10 years in the role. He was previously a Non-Executive Director of McBride plc. Colin is Chairman of the Audit 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.

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 report together with the audited financial statements for the 52 weeks ended 28 December 2014. Reference to other relevant information incorporated into this report is below.

### Strategic report

The Strategic report on pages 6 to 28 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. The Group's financial instruments risk management objectives and policy are discussed in the treasury risk management policies section of the Performance and financial review on page 20.

This Strategic report also includes the Corporate and social responsibility report on pages 25 to 28 which contains details of the Group's employment practices and greenhouse gas emissions.

### Corporate governance

The Corporate governance statement, Board Committee reports and Directors' remuneration report on pages 36 to 52 includes information required by DTR 7.2.

### Principal activities

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

### Results and dividends

The profit before income tax is £25.2m (2013: £24.9m).

An interim dividend of 3.8p per ordinary share was paid in November 2014. The Directors recommend the payment of a final dividend for the period, which is not reflected in these accounts, of 9.5p per ordinary share totalling £6.9m, which, together with the interim dividend, represents 13.3p per ordinary share for the year. Subject to approval at the Annual General Meeting, the final dividend will be paid on 26 June 2015 to members on the register at the close of business on 29 May 2015. Shares will be ex dividend on 28 May 2015.

### Directors and their interests

The Directors of the Company in office throughout 2014, 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 reappointment 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, Sir David Naish and Philip Heffer 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
Aberforth Partners	8,354,498	11.51%	Indirect
Fidelity Mgt & Research	7,040,603	9.70%	Indirect
AXA Investment Mgrs	5,175,050	7.13%	Indirect
G. Heffer	4,174,500	5.75%	Direct
R. Heffer	4,174,500	5.75%	Direct
Standard Life Investments	3,217,846	4.43%	Indirect

Additionally Directors' interests in shares total 10.56% and details are given on page 50.

### Political donations

No donations for political purposes were made during the year (2013: £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 14 May 2014:
  - 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 14 August 2015.

- 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.

## 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/aggm](http://www.hiltonfoodgroupplc.com/investors/aggm).

By order of the Board

**Neil George**  
Company Secretary  
24 March 2015

# 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.

This statement including the Board Committee reports and the Directors' remuneration report on pages 39 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 2014 complied with the ten requirements of this Code, taking into account the provisions for smaller companies.

The Financial Reporting Council issued a revised UK Corporate Governance Code in September 2014 which applies to accounting periods beginning on or after 1 October 2014. The provisions of these Codes can be obtained from [www.frc.org.uk/corporate/ukcgcde.cfm](http://www.frc.org.uk/corporate/ukcgcde.cfm).

## 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.

The Non-Executive Directors met once during the year to scrutinise the performance of the Executive management. A further meeting was held without the Non-Executive Chairman present to assess his performance.

### 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 reappointment by shareholders at the first opportunity following their appointment. Sir David Naish and Philip Heffer 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.

### Attendance at Board meetings

The following table sets out the Board meeting attendance by Board members, including the maximum number of meetings which could have been attended. Attendance at Board Committee meetings is set out in each Committee report.

	Number of meetings	Number attended
Robert Watson	11	11
Philip Heffer	11	10
Theo Bergman	11	9
Nigel Majewski	11	11
Sir David Naish	11	11
Chris Marsh	11	10
Colin Smith	11	11

### 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 2014 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. An external evaluation process was last conducted in 2011/12.

### 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 6 to 28. 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](http://www.hiltonfoodgroupplc.com).



## Corporate governance statement continued

### 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.

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.

By order of the Board

**Neil George**  
Company Secretary  
24 March 2015

# 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 28 December 2014.

## Role of the Committee

The Audit Committee is established by the Board of Directors. Terms of reference formalise the roles, tasks and responsibilities of the Committee 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](http://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, reappointment 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 auditors' 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 auditors 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.

## Attendance at meetings of the Audit Committee

	Number of meetings	Number attended
Colin Smith	4	4
Sir David Naish	4	4
Chris Marsh	4	4
Nigel Majewski	4	4

## How the Committee has discharged its responsibilities

During 2014 the Committee met four times at appropriate intervals in the financial reporting and audit cycles. 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 involved in their application.

The external auditors identified potential customer rebates as an area of audit focus and additionally in December 2014 the Financial Reporting Council called for clarity in the reporting of complex supplier arrangements by retailers and other businesses. The Committee fully considered these issues. Accordingly an overview of Hilton's business relationships with its retailer partners is contained in the 'Business model' section of the Chief Executive's summary on page 10 and information on the accounting policies adopted relating to revenue recognition are set out in note 2 on page 66. As Hilton's contracts with its customers include pre-agreed and pre-defined revenue parameters, performance measures and targets there were no significant estimates or judgements involved in the application of these accounting policies.

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.

## Report of the Audit Committee continued

### Risk management and internal controls

During the year the Internal Auditor reported to the Committee on the internal audit work performed 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.

### 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, PricewaterhouseCoopers LLP, were appointed in 2007. Their lead partner was rotated during the year having completed a five year term ensuring 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 10 years. The EU has published a new Audit Regulation covering mandatory audit firm rotation and tendering which, although still to be enshrined into UK legislation is expected to become effective during 2016.

PricewaterhouseCoopers LLP annually confirm their compliance with UK regulatory and professional requirements including ethical standards and that their objectivity is not compromised. Their audit work is subject to independent partner and quality control reviews. Potential independence threats through the provision of non-audit services are mitigated through various safeguards.

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.

### Non-audit services and 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 2014 at £68,000 represents 25% of audit fees which is significantly below a cap of 70% proposed by the EU. Further details of these costs can be found in note 6 on page 73. The Committee considers that this low level of non-audit fees does not affect the independence of the external auditors.

### Other

The Committee considered the impact of potential future changes to external audit reporting, audit tendering and rotation and non-audit services.

### 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  
24 March 2015

# 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 28 December 2014.

## Role of the Committee

The Nomination Committee is established by the Board of Directors. Terms of reference formalise the roles, tasks and responsibilities of the Committee 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](http://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.

## Attendance at meetings of the Nomination Committee

	Number of meetings	Number attended
Sir David Naish	1	1
Chris Marsh	1	1
Colin Smith	1	1

## How the Committee has discharged its responsibilities

During 2014 the Committee met once in a continuing stable environment.

Although there was no need to consider any new appointments in the year plans are being put into place to facilitate the appointment of further Non-Executive Directors as and when required. Hilton is also developing management structures to promote its talent pipeline as part of a succession planning process covering the Directors and senior management positions. Hilton prefers where possible to recruit these positions from internal candidates. Accordingly processes are being developed to assess the current management population against criteria for larger management roles they could potentially fill in the future and put in place individual development plans.

The Chairman has discussions with each Director to review and agree their training and development needs.

## 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  
24 March 2015

# 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 28 December 2014.

## Role of the Committee

The Risk Management Committee is established by the Board of Directors. Terms of reference formalise the roles, tasks and responsibilities of the Committee 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 Finance Director, 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.

## Attendance at meetings of the Risk Management Committee and how the Committee has discharged its responsibilities

During 2014 the Committee met ten times (of which Nigel Majewski attended eight meetings) and focused on the key areas set out below:

- monitoring, identification and evaluation of potential risks to all the Hilton businesses;
- developing business continuity management systems. Disaster exercises are conducted at various sites each year with feedback describing such exercises as realistic, challenging and worthwhile; and
- the further evolution of the sister site support network across the Group in the event of any business interruption to a particular operating unit. Mechanisms are in place to identify spare capacity calculated on the basis of each unit's overall equipment effectiveness with the data being updated regularly and then aggregated. Additionally central labelling equipment is being established in locations across the Group. These advances mean that the Group has been able to significantly shorten reaction times making possible rapid support across the Group.

## 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  
24 March 2015

# 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 28 December 2014.

## Role of the Committee

Remuneration policy is delegated by the Board to the Remuneration Committee established by the Board of Directors. Terms of reference formalise the roles, tasks and responsibilities of the Committee 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](http://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.

## Attendance at meetings of the Remuneration Committee

	Number of meetings	Number attended
Chris Marsh	5	4
Sir David Naish	5	5
Colin Smith	5	5

## 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% effective from 1 January 2015.

### Annual bonus for Executive Directors

A 2014 non-financial metric award of 15.8% of salary was granted out of a maximum of 20% of salary reflecting the significant strategic progress achieved by the Company during 2014. Under the financial metric 24.2% of salary is payable out of a maximum of 105% of salary reflecting the increase in actual net income in 2014 over 2013 net income. The 2015 Executive Director bonus scheme financial element will have a threshold award of 20% for achieving the 2014 actual net income level rising to 105% for performance of at least 118% of 2015 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% of salary maximum bonus opportunity for the Executive Directors.

### Long term incentive schemes

During 2014 a grant of nil cost options under the Long Term Incentive Plan was approved with vesting subject to an EPS performance condition. Threshold performance is EPS growth of 8% per annum where 25% of the options will vest rising to EPS growth of at least 13% per annum where 100% of the options will vest. There was a further invitation under Hilton's Sharesave Scheme during the year.

### 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 £10,199 and no other services to the Company are provided. New Bridge Street is a member of the Remuneration Consultants Group and is a signatory to its code of conduct.

## Directors' remuneration report continued

### 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 28 December 2014 the headroom available under these limits was 3.4% and 0% respectively.

### Statement of voting at annual general meeting

This Directors' remuneration report (other than the Directors' remuneration policy) is subject to a non-binding resolution at each AGM. The Directors' remuneration policy is subject to a binding resolution every three years or sooner where any changes are made. The resolutions to approve the 2013 Directors' remuneration report were unanimously passed on a show of hands at the AGM held in the year. The proxy vote was as follows:

	Approve Directors' remuneration report	Approve Directors' remuneration policy
Resolution type	Advisory	Binding
Votes for	55,334,268	56,527,670
%	91.7%	93.7%
Votes against	5,017,158	3,823,756
%	8.3%	6.3%
Votes withheld	3,800	3,800

No changes are proposed to the Directors remuneration policy. An advisory resolution on the Directors' remuneration report (other than the Directors' remuneration policy) will be proposed at Hilton's 2015 AGM accordingly.

### Directors' remuneration policy

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 policy set out below was passed by a binding shareholder vote at the Company's 2014 Annual General Meeting. The policy will be subject to further binding votes every three years or sooner where any changes are made. No changes are proposed and the policy is reproduced below for completeness and transparency.

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, changes in responsibility, and/or specific retention issues.
Benefits	To provide market competitive benefits to ensure the retention of employees	The Company typically provides: <ul style="list-style-type: none"> <li>– Company car and fuel;</li> <li>– Private healthcare; and</li> <li>– Other ancillary benefits, including relocation expenses (as required).</li> </ul>	Value of benefits is based on the cost to the Company and is not pre-determined.

Element	Purpose and link to strategy	Operation	Maximum opportunity
Pension	To provide adequate retirement benefits	<p>Employer contributions are made to money purchase pension schemes at the rates set out in Executive Directors' service contracts.</p> <p>In certain circumstances a salary supplement may be paid in lieu of such pension contributions.</p>	Up to 15% of basic salary for Robert Watson, Philip Heffer and Nigel Majewski and for Theo 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	<p>The annual bonus scheme for Executive Directors is based on performance against the following metrics:</p> <ul style="list-style-type: none"> <li>– Financial element based on achieving financial targets including the Group net income level adjusted for exceptional items; and</li> <li>– Non-financial element based on individual Executive Director achievement against personal and strategic targets.</li> </ul> <p>There are no deferred elements. Any bonus paid is subject to claw-back in circumstances of exceptional misstatement or misconduct.</p>	Up to 125% of basic salary.
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	<p>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.</p> <p>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.</p> <p>Awards are subject to claw-back for three years following vesting in circumstances of material misstatement, error or misconduct.</p> <p>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.</p>	<p>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.</p> <p>The same ESOS maximum opportunity as for LTIP above.</p>



## Directors' remuneration report continued

Element	Purpose and link to strategy	Operation	Maximum opportunity
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

- 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 viewed as having the greatest potential to influence Group levels of performance.
- 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.
- The long term incentive EPS metric was chosen as it aligns the incentive with long term returns to shareholders.
- 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.

**Other policy information**

Element	Description
Non-UK based Directors and foreign currency translation	<p>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.</p> <p>Remuneration to Theo Bergman is paid in Euro which, for disclosure purposes, is translated into Sterling at the average exchange rate for the relevant year.</p>
Share ownership	<p>The Directors' current shareholdings total 10.56% of the Company's shares. The Committee considers these shareholdings to be significant and sufficient to align their interests to the longer term performance of the Company such that no additional guideline is necessary.</p>
Approach to recruitment	<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>For external and internal Executive Director appointments, the Committee may agree that the Company will meet certain relocation expenses where appropriate.</p>
Payment for loss of office	<p>Payments for loss of office are made in accordance with the terms of the Directors' service contracts as below.</p> <p>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.</p>
Consideration of shareholder views	<p>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.</p>
Consideration of employment conditions elsewhere in the Group	<p>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.</p>

## Directors' remuneration report continued

### Director service contract and other relevant information

Provision	Executive Directors	Non-Executive Directors
Term	All appointed on 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 the Company and the Director	6 months for both the Company and the 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 Theo 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.

## 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 28 December 2014	Salary and fees £'000	Benefits £'000	Annual bonus £'000	Long term incentive £'000	Pension £'000	Total £'000
<b>Executive Directors</b>						
Robert Watson	376	43	150	–	57	626
Philip Heffer	301	40	120	–	45	506
Theo Bergman	343	21	127	–	110	601
Nigel Majewski	301	29	120	–	40	490
<b>Non-Executive Directors</b>						
Sir David Naish	90	–	–	–	–	90
Chris Marsh	50	–	–	–	–	50
Colin Smith	50	–	–	–	–	50
<b>Total</b>	<b>1,511</b>	<b>133</b>	<b>517</b>	<b>–</b>	<b>252</b>	<b>2,413</b>
<b>52 weeks to 29 December 2013</b>						
<b>Executive Directors</b>						
Robert Watson	363	41	151	–	55	610
Philip Heffer	290	35	121	–	44	490
Theo Bergman	344	21	133	–	108	606
Nigel Majewski	290	27	121	–	25	463
<b>Non-Executive Directors</b>						
Sir David Naish	90	–	–	–	–	90
Chris Marsh	50	–	–	–	–	50
Colin Smith	50	–	–	–	–	50
<b>Total</b>	<b>1,477</b>	<b>124</b>	<b>526</b>	<b>–</b>	<b>232</b>	<b>2,359</b>

### Notes

#### 1. Salary and fees

2014 salaries reflect a 3.5% increase on 2013. The salary disclosed in respect of Theo Bergman includes an 8% holiday allowance.

#### 2. Annual bonus

Under the 2014 annual bonus financial element formula, threshold performance was 2013 net income £17.8m, achievement of which earned a 20% of salary bonus. Thereafter the bonus was calculated on a sliding scale including a 45% of salary bonus for achieving the 2014 budgeted net income level of £19.6m up to a maximum 105% of salary bonus for achieving the stretch target of 115% of 2014 budgeted net income being £22.5m. A non-financial element bonus of up to 20% was available aggregating to a 125% maximum bonus opportunity.

Actual 2014 net income was £18.1m exceeding that achieved in 2013 being 92.0% of 2014 budgeted net income resulting in a financial element bonus of 24.2% of salary. The Committee considered that significant strategic progress had been made in difficult trading conditions and accordingly awarded a 15.8% of salary non-financial metric bonus out of a potential 20% of salary. Therefore a total bonus of 40.0% of salary (excluding Theo Bergman's holiday allowance) is payable for the year to each Executive Director.

In 2013 net income exceeded the threshold achieving 94.7% of 2013 budgeted net income which resulted in a financial element bonus of 26.6% of salary. A 15% of salary bonus was paid to each Executive Director in respect of the non-financial metric in view of excellent strategic progress. Accordingly a total bonus of 41.6% of salary was paid during the year.

#### 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.

For 2014 there are incentive awards options under the Long Term Incentive Plan due to vest during 2015 subject to performance conditions covering the three years 2012-2014. The earnings per share performance metric for that period fell short of the threshold 6% compound annual growth and accordingly it is expected that there will be 0% vesting.

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

#### 4. Pension

Payments were made during 2014 and 2013 to money purchase pension schemes or in lieu as a salary supplement at rates of up to 15% of basic salary for Robert Watson, Philip Heffer and Nigel Majewski and up to 24% of basic salary, holiday allowance and bonus for Theo Bergman (in compliance with a legacy arrangement).

#### 5. Payments to past directors

No payments were made to former directors in 2014 or 2013.

#### 6. Payments for loss of office

No payments for loss of office were made in 2014 or 2013.

## 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 29 December 2013	Granted (note 5)	Exercised	At 28 December 2014	Exercise price (pence)	Earliest exercise date	Latest exercise date	Notes
Robert Watson	Shares	3,016,380			3,016,380				1
	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
	Share options	–	1,955	–	1,955	460.25	01.04.17	01.10.17	4
	Total share options	310,868	1,955	(180,258)	132,565				
	Nil cost options	141,585	–	–	141,585	nil	26.06.15	26.06.22	3(a)
	Nil cost options	102,228	–	–	102,228	nil	08.05.16	08.05.23	3(b)
	Nil cost options	–	71,046	–	71,046	nil	28.04.17	28.04.24	3(c)
	Total nil cost options	243,813	71,046	–	314,859				
Philip 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
	Share options	–	1,955	–	1,955	460.25	01.04.17	01.10.17	4
	Total share options	368,995	1,955	–	370,950				
	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)
	Nil cost options	–	56,836	–	56,836	nil	28.04.17	28.04.24	3(c)
	Total nil cost options	195,098	56,836	–	251,934				
Theo Bergman	Shares	328,333			328,333				1
	Share options	113,610	–	–	113,610	246.00	10.05.13	10.05.20	2
	Total share options	113,610	–	–	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)
	Nil cost options	–	60,828	–	60,828	nil	28.04.17	28.04.24	3(c)
	Total nil cost options	207,811	60,828	–	268,639				
Nigel Majewski	Shares	57,599			91,760				1
	Share options	120,301	–	(120,301)	–	199.50	12.05.11	12.05.18	2
	Share options	104,488	–	–	104,488	246.00	10.05.13	10.05.20	2
	Share options	–	1,955	–	1,955	460.25	01.04.17	01.10.17	4
	Total share options	224,789	1,955	(120,301)	106,443				
	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)
	Nil cost options	–	56,836	–	56,836	nil	28.04.17	28.04.24	3(c)
	Total nil cost options	195,098	56,836	–	251,934				
Sir David Naish	Shares	55,000			60,000				1
Chris Marsh	Shares	30,000			30,000				1
Colin Smith	Shares	50,000			50,000				1

### Notes

- 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 Robert Watson is a trustee. Additionally 750,000 shares held by Robert Watson have been pledged as security on a personal loan. Since the year end Robert Watson sold 90,000 shares. There have been no other changes in the interests of Directors between 28 December 2014 and the date of this report.
- Executive Share Option Scheme awards which have vested.
- 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 financial years commencing with the year in which the awards were granted.
  - 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.
  - Awards vest on a sliding scale between 25% for 5% EPS compound annual growth and 100% for at least 10% EPS compound annual growth.
  - Awards vest on a sliding scale between 25% for 8% EPS compound annual growth and 100% for at least 13% EPS compound annual growth.
- Share options granted under Hilton's all employee Sharesave Scheme.
- Face value of the nil cost option awards granted in the year were Robert Watson £375,831, Philip Heffer £300,665, Theo Bergman £321,779 and Nigel Majewski £300,665 based on the actual share price at date of grant of 529 pence on 28 April 2014.

## Further information

### Statement of implementation of remuneration policy in the 2015 financial year

#### Base salaries

For 2015 salaries for Executive Directors have increased by 3% and are disclosed below.

	2014 £'000	2015 £'000
Robert Watson	376	387
Philip Heffer	301	310
Theo Bergman	343	353
Nigel Majewski	301	310

#### Note

The base salary for Theo Bergman for both years include holiday allowance and are translated at the 2014 average exchange rate.

#### Annual bonus

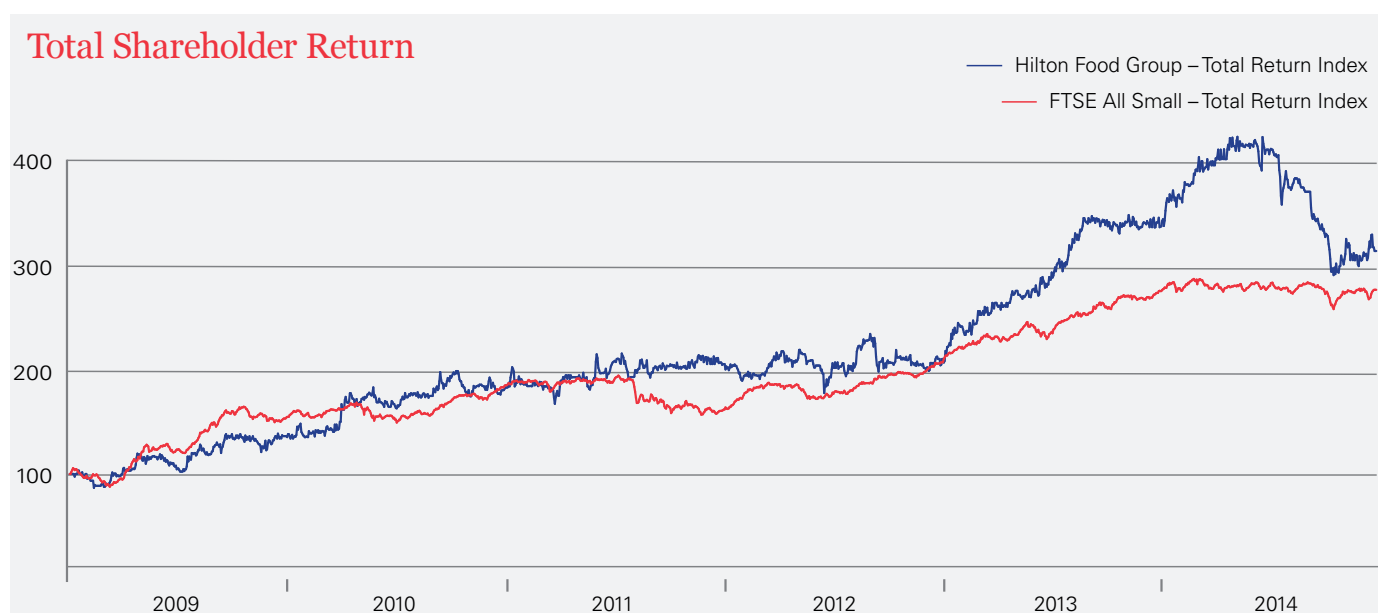
The maximum annual bonus in 2015 will be 125% of salary for all Executive Directors (for Theo Bergman excluding holiday allowance). This bonus will be payable subject to stretching targets around net income (up to 105% of salary) and personal and strategic targets (up to 20% of salary). As financial targets are set with reference to the budget, they are therefore considered commercially sensitive. The Committee will disclose targets on a retrospective basis.

#### 2015 long term incentive awards

The Committee will make a decision on any 2015 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 six years 2009 to 2014. 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.



## Directors' remuneration report continued

### Chief Executive Officer remuneration six year trend

	2009	2010	2011	2012	2013	2014
Total remuneration (£'000)	584	644	730	593	610	626
Annual bonus (as a percentage of the maximum)	85%	63%	53%	10%	42%	32%
Long term incentive vesting (as a percentage of the maximum)	n/a	100%	100%	100%	n/a	0%

#### Note

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

### Chief Executive Officer remuneration percentage change

2014 percentage increase over 2013	CEO	Company average
Salary	3.5%	3%
Benefits	4.9%	n/a
Annual bonus	-0.7%	n/a

#### Note

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 0% respectively.

### Relative importance of spend on pay

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

	2014 £'000	2013 £'000	% change
Staff costs (note 8 to the financial statements)	74,570	72,141	3%
Dividends payable	9,649	9,201	5%

#### Note

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  
24 March 2015

## 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 Directors' 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 24 March 2015 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:

- Hilton Food Group Plc's Group financial statements and Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Company's affairs as at 28 December 2014 and of the Group's profit and the Group's and Company's cash flows for the 52 week period (the "period") 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 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.

### What we have audited

Hilton Food Group Plc's financial statements comprise:

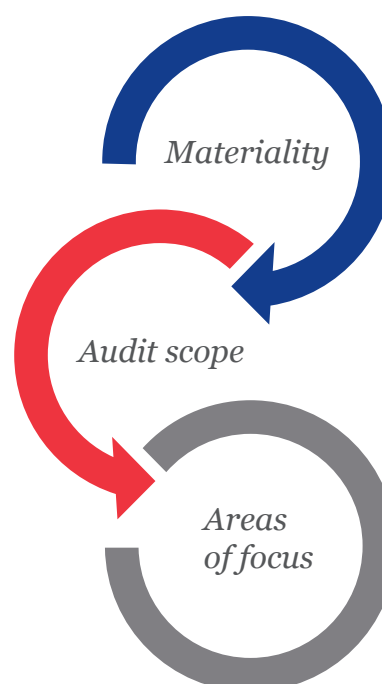
- the Group and Company balance sheet as at 28 December 2014;
- the Group income statement and the Group statement of comprehensive income for the period then ended;
- the Group and Company cash flow statement for the period then ended;
- the Group and Company statement of changes in equity for the period 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 the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union and, as regards the Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

### Our audit approach

#### Overview

- Overall Group materiality: £1,259,000 which represents 5% of profit before tax.
- We determined that all companies within the Group required an audit of their complete financial information.
- Customer supply arrangements.



#### The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)").

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

**Area of focus****Customer supply arrangements**

The Group has entered into a number of rebate and incentive arrangements with its customers.

Rebates and incentives are calculated based on agreed contracted rates and volumes of sales to customers over the term of the contracts.

As the arrangements are based on contracted rates and known sales volumes there is little judgement or estimation required around the recognition of these amounts accurately and in the appropriate accounting period.

However, owing to the number of agreements in place and the range of contractual terms included within those agreements there is an increased risk that the application of those terms might be calculated inaccurately, omitted from the calculation or included in the incorrect accounting period.

Additional audit effort was therefore required to obtain sufficient evidence that there was no material misstatement in this regard.

Furthermore, the Group occasionally agrees variations to these arrangements with its customers during the term of the contract. This can result in a change in agreed rates applied in the calculation of the rebate and incentive amounts.

We therefore focused our work on the appropriate reflection of these variations in the Directors' calculations, including assessing whether all variations with a material impact had been included in the calculation.

**How our audit addressed the area of focus**

We obtained and read copies of open customer supply agreements in order to understand the impact of these arrangements on the financial statements.

We held discussions with management and inspected minutes of Board discussions and determined, based on that evidence, that the list of contracts management had provided was complete.

We selected a sample of rebate and incentive accruals and agreed them to the contracts. Based on these procedures the amounts had been recognised in the correct period and calculated appropriately based on the correct contracted rates in the agreement and sales amounts in the accounting ledgers (which we had audited).

We tested that variations in contracts and/or rates had been reflected in the accrual calculations and determined, based on these procedures, that they had been correctly reflected.

We also selected rebate and incentive payments made after the period end and checked that, where appropriate, they were accrued in the financial statements and found that they were.

**How we tailored the audit scope**

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group is structured as a parent company with ten subsidiary undertakings:

- six trading subsidiaries located in the United Kingdom, the Republic of Ireland, the Netherlands, Poland, Denmark and Sweden, all of these entities are required to have statutory audits under local legislation; and

- four intermediary holding companies, all located in the United Kingdom and all requiring statutory audits.

All of these entities are audited by PwC network firms with the exception of the subsidiary located in the Netherlands, which is audited by BDO Hoorn.

In addition to these 11 entities the Group has a 50% interest in a joint venture company located in Australia. We did not consider this company to be financially significant to the Group.

The key procedures we adopted in respect of working with component auditors were:

- Issuing formal Group reporting instructions, which set out our requirements for the component auditors, together with our assessment of audit risks in the Group;
- Planning discussions were held with all component auditors in order to agree those requirements, discuss the Group audit risks and to identify any component specific risks;
- High level analysis of the financial information of the component by the Group engagement team;
- Attending, with Group management, the component clearance meeting held between the component auditors and local management; and
- Obtaining signed audit opinions, under ISA (UK and Ireland), that the component financial information was properly prepared in accordance with IFRSs as adopted by the European Union.

# Independent auditors' report continued

to the members of Hilton Food Group plc

## Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and 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 financial statements as a whole as follows:

**Overall Group materiality**  
£1,259,000 (2013: £1,246,000).

**How we determined it**  
5% of profit before tax.

## Rationale for benchmark applied

We have applied this benchmark, a generally accepted auditing practice, in the absence of indicators that an alternative benchmark would be appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £100,000 (2013: £100,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

## 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 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 Company's ability to continue as a going concern.

## Other required reporting

### Consistency of other information

#### Companies Act 2006 opinions

In our opinion:

- the information given in the Strategic Report and the Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance Statement set out on pages 36 to 38 with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements.

## ISAs (UK & Ireland) reporting

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 Company acquired in the course of performing our audit; or
  - otherwise misleading.

We have no exceptions to report arising from this responsibility.

- the explanation given by the Directors on page 53, in accordance with provision C.1.1 of the UK Corporate Governance Code ("the Code"), as to why the Annual Report does not include a statement 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 and Company's performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company acquired in the course of performing our audit.

We have no exceptions to report arising from this responsibility.

- the explanation given by the Directors on page 40, as required by provision C.3.8 of the Code, as to why the Annual Report does not include a section that appropriately addresses matters communicated by us to the Audit Committee is materially inconsistent with our knowledge of the Group and Company acquired in the course of performing our audit.

We have no exceptions to report arising from this responsibility.

## 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

### *Directors' remuneration report – Companies Act 2006 opinion*

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

### *Other Companies Act 2006 reporting*

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made, and under the Listing Rules we are required to review certain elements of the report to shareholders by the Board on Directors' remuneration. We have no exceptions to report arising from these responsibilities.

### *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 ten provisions of the UK Corporate Governance Code. We have nothing to report having performed our review.

## Responsibilities for the financial statements and the audit

### **Our responsibilities and those of the Directors**

As explained more fully in the Statements of Directors' Responsibilities set out on page 53, the Directors are responsible for the preparation of the 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 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.

## What an audit of financial statements involves

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 the parent 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.

We primarily focus 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.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual report and financial statements 2014 (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.

### **Kevin MacAllister**

(Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Belfast

24 March 2015

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

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## Consolidated income statement

	Notes	2014 52 weeks £'000	2013 52 weeks £'000
Continuing operations			
Revenue	5	1,098,990	1,124,780
Cost of sales		(966,809)	(993,257)
<b>Gross profit</b>		<b>132,181</b>	<b>131,523</b>
Distribution costs		(10,541)	(10,498)
Administrative expenses		(96,462)	(95,715)
Share of profit in joint venture		884	464
<b>Operating profit</b>		<b>26,062</b>	<b>25,774</b>
Finance income	9	102	118
Finance costs	9	(976)	(1,020)
Finance costs – net	9	(874)	(902)
<b>Profit before income tax</b>		<b>25,188</b>	<b>24,872</b>
Income tax expense	10	(5,638)	(5,512)
<b>Profit for the year</b>		<b>19,550</b>	<b>19,360</b>
<b>Attributable to:</b>			
Owners of the parent		18,071	17,828
Non-controlling interests		1,479	1,532
		19,550	19,360
<b>Earnings per share attributable to owners of the parent during the year</b>			
Basic (pence)	11	25.0	25.0
Diluted (pence)	11	24.7	24.8

## Consolidated statement of comprehensive income

	2014 52 weeks £'000	2013 52 weeks £'000
Profit for the year	19,550	19,360
<b>Other comprehensive income</b>		
Currency translation differences	(4,761)	390
<b>Other comprehensive income for the year net of tax</b>	<b>(4,761)</b>	<b>390</b>
<b>Total comprehensive income for the year</b>	<b>14,789</b>	<b>19,750</b>
<b>Total comprehensive income attributable to:</b>		
Owners of the parent	13,625	18,151
Non-controlling interests	1,164	1,599
	14,789	19,750

The notes on pages 64 to 85 are an integral part of these consolidated financial statements.

# Consolidated balance sheet

	Notes	Group		Company	
		2014 £'000	2013 £'000	2014 £'000	2013 £'000
<b>Assets</b>					
<b>Non-current assets</b>					
Property, plant and equipment	13	72,642	58,876	–	–
Intangible assets	14	12,547	2,660	–	–
Investments	15	1,234	405	102,985	102,985
Deferred income tax assets	21	771	1,313	–	–
		87,194	63,254	102,985	102,985
<b>Current assets</b>					
Inventories	16	22,029	23,837	–	–
Trade and other receivables	17	115,609	124,356	53	88
Current income tax assets		1,532	745	30	53
Cash and cash equivalents	18	35,586	34,642	333	189
		174,756	183,580	416	330
<b>Total assets</b>		<b>261,950</b>	<b>246,834</b>	<b>103,401</b>	<b>103,315</b>
<b>Equity</b>					
Equity attributable to owners of the parent					
Ordinary shares	22	7,259	7,216	7,259	7,216
Share premium		7,235	5,885	7,235	5,885
Employee share schemes reserve		441	857	–	–
Foreign currency translation reserve		(2,024)	2,422	–	–
Retained earnings		72,717	63,989	13,470	11,922
		85,628	80,369	27,964	25,023
Reverse acquisition reserve		(31,700)	(31,700)	–	–
Merger reserve		919	919	71,019	71,019
		54,847	49,588	98,983	96,042
Non-controlling interests		4,786	4,670	–	–
<b>Total equity</b>		<b>59,633</b>	<b>54,258</b>	<b>98,983</b>	<b>96,042</b>
<b>Liabilities</b>					
<b>Non-current liabilities</b>					
Borrowings	19	32,573	18,616	–	–
Deferred income tax liabilities	21	1,875	1,459	–	–
		34,448	20,075	–	–
<b>Current liabilities</b>					
Borrowings	19	10,687	11,104	–	–
Trade and other payables	20	157,182	161,397	4,418	7,273
		167,869	172,501	4,418	7,273
<b>Total liabilities</b>		<b>202,317</b>	<b>192,576</b>	<b>4,418</b>	<b>7,273</b>
<b>Total equity and liabilities</b>		<b>261,950</b>	<b>246,834</b>	<b>103,401</b>	<b>103,315</b>

The notes on pages 64 to 85 are an integral part of these consolidated financial statements.

The financial statements on pages 58 to 85 were approved by the Board on 24 March 2015 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

Group	Notes	Attributable to owners of the parent									
		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 31 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
Profit for the year		–	–	–	–	18,071	–	–	18,071	1,479	19,550
Other comprehensive income											
Currency translation differences		–	–	–	(4,446)	–	–	–	(4,446)	(315)	(4,761)
Total comprehensive income for the year		–	–	–	(4,446)	18,071	–	–	13,625	1,164	14,789
Issue of new shares		43	794	–	–	–	–	–	837	–	837
Adjustment in respect of employee share schemes		–	406	(151)	–	–	–	–	255	–	255
Tax on employee share schemes		–	150	(265)	–	–	–	–	(115)	–	(115)
Dividends paid	12	–	–	–	–	(9,343)	–	–	(9,343)	(1,048)	(10,391)
Total transactions with owners		43	1,350	(416)	–	(9,343)	–	–	(8,366)	(1,048)	(9,414)
Balance at 28 December 2014		7,259	7,235	441	(2,024)	72,717	(31,700)	919	54,847	4,786	59,633
<b>Company</b>											
Balance at 31 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		
Profit for the year		–	–	–	–	10,891	–	–	10,891		
Total comprehensive income for the year		–	–	–	–	10,891	–	–	10,891		
Issue of new shares		43	794	–	–	–	–	–	837		
Adjustment in respect of employee share schemes		–	406	–	–	–	–	–	406		
Tax on employee share schemes		–	150	–	–	–	–	–	150		
Dividends paid	12	–	–	–	–	(9,343)	–	–	(9,343)		
Total transactions with owners		43	1,350	–	–	(9,343)	–	–	(7,950)		
Balance at 28 December 2014		7,259	7,235	–	–	13,470	–	71,019	98,983		

The notes on pages 64 to 85 are an integral part of these consolidated financial statements.

## Consolidated cash flow statement

	Notes	Group		Company	
		2014 52 weeks £'000	2013 52 weeks £'000	2014 52 weeks £'000	2013 52 weeks £'000
<b>Cash flows from operating activities</b>					
Cash generated from operations	24	47,626	41,788	–	–
Interest paid		(976)	(1,020)	(171)	(213)
Income tax (paid)/received		(5,530)	(5,515)	87	115
Net cash generated from/(used in) operating activities		41,120	35,253	(84)	(98)
<b>Cash flows from investing activities</b>					
Purchases of property, plant and equipment		(31,830)	(17,228)	–	–
Proceeds from sale of property, plant and equipment		129	147	–	–
Purchases of intangible assets		(11,599)	(1,272)	–	–
Interest received		102	118	–	–
Dividends received		–	–	11,000	9,750
Net cash (used in)/generated from investing activities		(43,198)	(18,235)	11,000	9,750
<b>Cash flows from financing activities</b>					
Proceeds from borrowings		36,193	3,845	–	–
Repayments of borrowings		(21,923)	(11,114)	–	–
Repayment of inter-company loan		–	–	(2,266)	(3,349)
Issue of ordinary shares		837	2,627	837	2,627
Dividends paid to owners of the parent		(9,343)	(8,771)	(9,343)	(8,771)
Dividends paid to non-controlling interests		(1,048)	(764)	–	–
Net cash generated from/(used in) financing activities		4,716	(14,177)	(10,772)	(9,493)
<b>Net increase in cash and cash equivalents</b>					
Cash and cash equivalents at beginning of the year		34,642	31,428	189	30
Exchange (losses)/gains on cash and cash equivalents		(1,694)	373	–	–
Cash and cash equivalents at end of the year	18	35,586	34,642	333	189

The notes on pages 64 to 85 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 thirteen European countries and Australia. 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 28 December 2014 (prior financial year 52 weeks to 29 December 2013).

These consolidated financial statements were approved for issue on 24 March 2015.

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 £10,891,000 (2013: £9,545,000).

## 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 28 December 2014. 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 2014*

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 the requirements for offsetting financial assets and financial liabilities on the balance sheet.

Amendment to IAS 36 'Impairment of assets' (effective 1 January 2014). The amendment addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

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.

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

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.

Amendments 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.

None of these IFRSs, IFRIC interpretations or amendments had a material impact on the Group or the Company.

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 2013 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*

Amendment to IAS 1 'Presentation of financial statements' (effective 1 January 2016). This amendment is part of the IASB initiative to improve presentation and disclosure in financial reports.

Amendment to IAS 19 'Employee benefits' (effective 1 July 2014). The objective of the amendment is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary.

Amendment to IAS 27 'Separate financial statements' (effective 1 January 2016). These amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

Amendment to IAS 38 'Intangible assets' (effective 1 January 2016). This amendment has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.

Amendment to IFRS 11 'Joint arrangements' (effective 1 January 2016). This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business.

IFRS 9 'Financial instruments' (effective 1 January 2016). This is the complete version of IFRS 9, 'Financial instruments', replacing the guidance in IAS 39 and includes requirements on the classification and measurement of financial assets and liabilities. It also includes an expected credit losses model that replaces the previous incurred loss impairment model and the hedging amendment.

IFRS 15 'Revenue from contracts with customers' (effective 1 January 2016). This converged standard will improve the financial reporting of revenue and improve comparability of the top line in financial statements globally.

None of these IFRSs, IFRIC interpretations or amendments are expected to have a material impact on the Group or the Company.

## Notes to the financial statements continued

### 2 Summary of significant accounting policies (continued)

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. Revenue may be increased and/or decreased by reference to a range of pre-agreed and pre-defined performance measures.

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.

#### 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 economic lives, as follows:

	Annual rate
Leasehold buildings and improvements	4%–14%
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 economic 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 economic 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.

## Notes to the financial statements continued

### 2 Summary of significant accounting policies (continued)

#### 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.

#### 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.



# Notes to the financial statements continued

## 2 Summary of significant accounting policies (continued)

### 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.

### 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.

## 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	Income statement £'000	2014 Equity £'000	Income statement £'000	2013 Equity £'000
Annual effect of a change in Group-wide interest rates by 0.5%	92	92	101	101
	-92	-92	-101	-101
Annual effect of a change in exchange rates to the GBP £ by 10%	2,056	6,202	2,233	6,092
	-1,682	-5,074	-1,827	-4,984

**(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 £105.1m (2013: £110.9m) 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 £35.6m (2013: £34.6m) 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:

	2014			2013		
	Borrowings £'000	Finance leases £'000	Trade and other payables £'000	Borrowings £'000	Finance leases £'000	Trade and other payables £'000
Less than one year	10,530	329	152,702	11,180	342	156,246
Between one and two years	6,656	337	–	12,685	351	–
Between two and five years	23,649	1,062	–	4,061	1,106	–
Over five years	–	1,732	–	–	2,244	–

**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 interest, tax, depreciation and amortisation. There was gearing of 18% as at the year end (2013: nil).

**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 2014 and 2013 there were no critical accounting estimates or judgements in relation to the application of the Group's accounting policies.

## Notes to the financial statements continued

### 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.

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	2014 Total £'000	Western Europe £'000	Central Europe £'000	Central costs and other £'000	2013 Total £'000
Total segment revenue	1,018,368	82,156	–	1,100,524	1,029,131	96,265	–	1,125,396
Inter-segment revenue	(1,534)	–	–	(1,534)	(414)	(202)	–	(616)
Revenue from external customers	1,016,834	82,156	–	1,098,990	1,028,717	96,063	–	1,124,780
Operating profit/segment result	27,115	2,426	(3,479)	26,062	27,860	2,481	(4,567)	25,774
Finance income	20	81	1	102	56	57	5	118
Finance costs	(667)	–	(309)	(976)	(556)	(29)	(435)	(1,020)
Income tax expense	(5,902)	(502)	766	(5,638)	(6,133)	(497)	1,118	(5,512)
Profit for the year	20,566	2,005	(3,021)	19,550	21,227	2,012	(3,879)	19,360
Depreciation and amortisation	14,354	1,186	96	15,636	14,205	1,287	78	15,570
Additions to non-current assets	42,492	824	113	43,429	17,898	456	146	18,500
Segment assets	240,231	15,949	3,467	259,647	223,027	18,495	3,254	244,776
Current income tax assets				1,532				745
Deferred income tax assets				771				1,313
Total assets				261,950				246,834
Segment liabilities	190,316	7,521	1,163	199,000	166,394	9,556	1,114	177,064
Borrowings				1,442				14,053
Deferred income tax liabilities				1,875				1,459
Total liabilities				202,317				192,576

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	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
<b>Analysis by geographical area</b>				
United Kingdom – country of domicile	391,139	314,465	40,200	15,802
Netherlands	266,049	294,596	10,645	12,532
Sweden	197,603	222,802	13,828	5,302
Republic of Ireland	60,289	76,010	4,351	5,299
Denmark	101,754	120,843	13,821	18,560
Central Europe	82,156	96,064	3,578	4,446
	1,098,990	1,124,780	86,423	61,941
<b>Analysis by principal customer</b>				
Customer 1	472,883	418,085		
Customer 2	299,779	338,522		
Customer 3	212,698	239,331		
Customer 4	99,996	120,748		
Other	13,634	8,094		
	1,098,990	1,124,780		

## 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 auditors and its associates:

Group	2014 £'000	2013 £'000
Fees payable to the Company's auditors for the audit of the parent company and consolidated financial statements	129	128
Fees payable to the Company's auditors and its associates for other services:		
– The audit of the Company's subsidiaries pursuant to legislation	138	136
– Other services pursuant to legislation	43	43
– Services relating to taxation	59	66
– All other services	9	5
Total fees payable to the Company's auditors and its associates	378	378
Fees payable to other auditors in respect of services provided to subsidiary undertakings	53	60

## 7 Expenses by nature

Group	2014 £'000	2013 £'000
Changes in inventories of finished goods and goods for resale	407	(501)
Raw materials and consumables used	903,841	928,789
Employee benefit expense (note 8)	74,570	72,141
Depreciation and amortisation – owned assets	15,470	15,395
Depreciation and amortisation – leased assets	166	175
Repairs and maintenance expenditure on property, plant and equipment	10,894	11,445
Trade receivables – impairment	35	6
Hire of plant and machinery	801	717
Transportation expenses	10,476	10,332
Operating lease payments	7,070	8,226
Foreign exchange losses	59	21
Other expenses	50,023	52,724
Total cost of sales, distribution costs and administrative expenses	1,073,812	1,099,470

## Notes to the financial statements continued

**8 Employee benefit expense**

Group	2014 £'000	2013 £'000
<b>Staff costs during the year</b>		
Wages and salaries	62,450	60,824
Social security costs	8,830	8,306
Share options granted to Directors and employees	255	83
Other pension costs	3,035	2,928
	<b>74,570</b>	<b>72,141</b>

Group	2014 Number	2013 Number
<b>Average number of persons employed (including Executive Directors) during the year by activity</b>		
Production	1,866	1,653
Administration	581	590
	<b>2,447</b>	<b>2,243</b>

Group	2014 £'000	2013 £'000
<b>Key management compensation (including Directors)</b>		
Salaries and short term employee benefits, including termination benefits	3,403	3,282
Post-employment benefits	328	308
Share-based payments	179	58
	<b>3,910</b>	<b>3,648</b>

Group	2014 £'000	2013 £'000
<b>Directors' emoluments</b>		
Aggregate emoluments	2,161	2,127
Company contribution to money purchase pension scheme	252	232
	<b>2,413</b>	<b>2,359</b>

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 (2013: £nil).

**9 Finance income and costs**

Group	2014 £'000	2013 £'000
<b>Finance income</b>		
Interest income on short term bank deposits	97	115
Interest on income taxes	5	3
<b>Finance income</b>	<b>102</b>	<b>118</b>
<b>Finance costs</b>		
Bank borrowings	(765)	(671)
Finance leases	(189)	(208)
Exchange gains/(losses) on foreign currency borrowings	22	(63)
Other interest expense	(44)	(78)
<b>Finance costs</b>	<b>(976)</b>	<b>(1,020)</b>
<b>Finance costs – net</b>	<b>(874)</b>	<b>(902)</b>

**10 Income tax expense**

Group	2014 £'000	2013 £'000
<b>Current income tax</b>		
Current tax on profits for the year	4,795	5,764
Adjustments to tax in respect of previous years	47	(130)
<b>Total current tax</b>	<b>4,842</b>	<b>5,634</b>
<b>Deferred income tax</b>		
Origination and reversal of temporary differences	704	(198)
Adjustments to tax in respect of previous years	92	76
<b>Total deferred tax</b>	<b>796</b>	<b>(122)</b>
<b>Income tax expense</b>	<b>5,638</b>	<b>5,512</b>

Deferred tax debited directly to equity during the year in respect of employee share schemes amounted to £265,000 (2013: £218,000 credit).

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 21.5% (2013: 23.25%) applied to profits of the consolidated entities as follows:

	2014 £'000	2013 £'000
<b>Profit before income tax</b>	<b>25,188</b>	<b>24,872</b>
Tax calculated at the standard rate of UK Corporation Tax 21.5% (2013: 23.25%)	5,415	5,783
(Income not taxable)/expenses not deductible for tax purposes	(37)	88
Adjustments to tax in respect of previous years	139	(54)
Profits taxed at rates other than 21.5% (2013: 23.25%)	133	(207)
Other	(12)	(98)
<b>Income tax expense</b>	<b>5,638</b>	<b>5,512</b>

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

## Notes to the financial statements continued

**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.

Group		2014		2013	
		Basic	Diluted	Basic	Diluted
Profit attributable to owners of the parent	(£'000)	18,071	18,071	17,828	17,828
Weighted average number of ordinary shares in issue	(thousands)	72,379	72,379	71,321	71,321
Adjustment for share options	(thousands)	–	714	–	654
Adjusted weighted average number of ordinary shares	(thousands)	72,379	73,093	71,321	71,975
Basic and diluted earnings per share	(pence)	25.0	24.7	25.0	24.8

**12 Dividends**

Group	2014 £'000	2013 £'000
Final dividend in respect of 2013 paid 9.1p per ordinary share (2013: 8.6p)	6,590	6,139
Interim dividend in respect of 2014 paid 3.8p per ordinary share (2013: 3.65p)	2,753	2,632
Total dividends paid	9,343	8,771

The Directors propose a final dividend of 9.5p per share payable on 26 June 2015 to shareholders who are on the register at 29 May 2015. This dividend totalling £6.9m has not been recognised as a liability in these consolidated financial statements.

**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
<b>Cost</b>					
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
<b>Accumulated depreciation</b>					
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
<b>Net book amount</b>					
At 31 December 2012	10,640	43,125	2,249	148	56,162
At 29 December 2013	9,834	46,518	2,346	178	58,876
<b>Cost</b>					
At 30 December 2013	26,162	153,085	11,151	311	190,709
Exchange adjustments	(909)	(9,319)	(636)	(3)	(10,867)
Additions	13,176	17,473	1,165	16	31,830
Reclassification	(754)	3,344	(2,672)	82	–
Disposals	–	(4,368)	(454)	(109)	(4,931)
At 28 December 2014	37,675	160,215	8,554	297	206,741
<b>Accumulated depreciation</b>					
At 30 December 2013	16,328	106,567	8,805	133	131,833
Exchange adjustments	(535)	(6,364)	(476)	(1)	(7,376)
Charge for the year	1,966	11,391	1,006	74	14,437
Reclassification	(492)	2,582	(2,090)	–	–
Disposals	–	(4,265)	(443)	(87)	(4,795)
At 28 December 2014	17,267	109,911	6,802	119	134,099
<b>Net book amount</b>					
At 28 December 2014	20,408	50,304	1,752	178	72,642

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 £1,209,000 (2013: £5,027,000).

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

	2014 £'000	2013 £'000
Cost – capitalised finance leases	3,195	3,412
Accumulated depreciation	(1,742)	(1,688)
Net book amount	1,453	1,724

Included in assets held under finance leases are land and buildings with a net book amount of £1,453,000 (2013: £1,724,000).



## Notes to the financial statements continued

**14 Intangible assets**

Group	Product licences £'000	Computer software £'000	Goodwill £'000	Total £'000
<b>Cost</b>				
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
<b>Accumulated amortisation</b>				
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
<b>Net book amount</b>				
At 31 December 2012	61	960	836	1,857
At 29 December 2013	1,044	780	836	2,660
<b>Cost</b>				
At 30 December 2013	8,833	4,441	836	14,110
Exchange adjustments	(977)	(475)	–	(1,452)
Additions	11,449	150	–	11,599
At 28 December 2014	19,305	4,116	836	24,257
<b>Accumulated amortisation</b>				
At 30 December 2013	7,789	3,661	–	11,450
Exchange adjustments	(525)	(414)	–	(939)
Charge for the year	892	307	–	1,199
At 28 December 2014	8,156	3,554	–	11,710
<b>Net book amount</b>				
At 28 December 2014	11,149	562	836	12,547

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

**15 Group entities****Investments in subsidiaries**

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

Company	2014 £'000	2013 £'000
At 30 December 2013 and 28 December 2014	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 Foods UK 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	2014 £'000	2013 £'000
At 30 December 2013	405	–
Profit for the period	884	464
Effect of movements in foreign exchange	(55)	(59)
At 28 December 2014	1,234	405

Where relevant, management accounts for the joint venture have been used to include the results up to 28 December 2014. The Group's share of the net assets, income and expenses of the joint venture are detailed below:

	2014 £'000	2013 £'000
<b>Net assets</b>	1,234	405
Income	1,744	664
Expenses	(481)	(2)
Taxation	(379)	(198)
<b>Profit after tax</b>	884	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

## Notes to the financial statements continued

**16 Inventories**

Group	2014	2013
	£'000	£'000
Raw materials and consumables	17,846	19,247
Finished goods and goods for resale	4,183	4,590
	<b>22,029</b>	<b>23,837</b>

The cost of inventories recognised as an expense and included in cost of sales amounted to £904,248,000 (2013: £928,288,000). The Group charged £201,000 in respect of inventory write-downs (2013: £563,000). The amount charged has been included in cost of sales in the income statement.

**17 Trade and other receivables**

	Group		Company	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Trade receivables	105,345	110,944	–	–
Less: provision for impairment of trade receivables	(213)	(48)	–	–
Trade receivables – net	105,132	110,896	–	–
Amounts owed by Group undertakings	–	–	53	88
Amounts owed by related parties (see note 26)	33	387	–	–
Other receivables	6,028	8,064	–	–
Prepayments	4,416	5,009	–	–
	<b>115,609</b>	<b>124,356</b>	<b>53</b>	<b>88</b>

The carrying amounts of trade and other receivables are denominated in the following currencies:

Currency	Group		Company	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
UK Pound	32,683	23,511	53	88
Euro	48,299	57,056	–	–
Swedish Krona	20,636	22,572	–	–
Danish Krone	11,092	15,978	–	–
Polish Zloty	2,866	4,852	–	–
Australian Dollar	33	387	–	–
	<b>115,609</b>	<b>124,356</b>	<b>53</b>	<b>88</b>

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 £213,000 (2013: £48,000). 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	2014	2013
	£'000	£'000
At 30 December 2013	48	51
Provision for receivables impairment	375	132
Receivables written-off during the year as uncollectable	(207)	(136)
Exchange differences	(3)	1
<b>At 28 December 2014</b>	<b>213</b>	<b>48</b>

**18 Cash and cash equivalents**

	Group		Company	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Cash at bank and on hand	35,586	34,642	333	189

**19 Borrowings**

Group	2014	2013
	£'000	£'000
<b>Current</b>		
Bank borrowings	10,531	10,942
Finance lease liabilities	156	162
	<b>10,687</b>	<b>11,104</b>
<b>Non-current</b>		
Bank borrowings	30,304	16,031
Finance lease liabilities	2,269	2,585
	<b>32,573</b>	<b>18,616</b>
<b>Total borrowings</b>	<b>43,260</b>	<b>29,720</b>

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	2014 £'000	2013 £'000
UK Pound	30,737	17,375
Euro	2,425	12,345
Swedish Krona	10,098	–
	<b>43,260</b>	<b>29,720</b>

Borrowings are repayable in quarterly instalments by 2019. Interest on borrowings in Sterling is charged at LIBOR plus 1.6% subject to interest rate caps over £12m of borrowings where LIBOR is capped at 4.5%. Interest on borrowings in Swedish Krona is charged at STIBOR plus 1.6% subject to interest rate caps over SEK 75m of borrowings where STIBOR is capped at 3%.

Bank borrowings totalling £40,835,000 (2013: £26,973,000) 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 and loan borrowing facilities of £46.5m (2013: £18.3m) 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:

Group	Minimum lease payments		Present value	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
No later than one year	329	358	156	162
Later than one year and no later than five years	1,398	1,457	2,269	2,585
Later than five years	1,732	2,237	–	–
	<b>3,459</b>	<b>4,052</b>	<b>2,425</b>	<b>2,747</b>
Future finance charges on finance leases	(1,034)	(1,305)	–	–
Present value of finance lease liabilities	<b>2,425</b>	<b>2,747</b>	<b>2,425</b>	<b>2,747</b>

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 £3,315,000 (2013: £3,840,000). The fair values are based on cash flows discounted using the European Central Bank benchmark main refinancing operations fixed interest rate of 0.05% (2013: 0.25%).

## Notes to the financial statements continued

**20 Trade and other payables**

	Group		Company	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Trade payables	133,284	138,527	–	–
Amounts owed to Group undertakings	–	–	4,403	7,225
Social security and other taxes	4,480	5,151	–	–
Accruals and deferred income	19,418	17,719	15	48
	157,182	161,397	4,418	7,273

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	Total £'000
At 31 December 2012	(788)	320	(468)
Exchange differences	(18)	–	(18)
Income statement credit	120	2	122
Adjustment in respect of employee share schemes	–	218	218
At 29 December 2013	(686)	540	(146)
Exchange differences	103	–	103
Income statement (charge)/credit	(808)	12	(796)
Adjustment in respect of employee share schemes	–	(265)	(265)
At 28 December 2014	(1,391)	287	(1,104)

The following is the reconciliation of the deferred tax balances in the balance sheet:

Group	2014 £'000	2013 £'000
Deferred tax liabilities	(1,875)	(1,459)
Deferred tax assets	771	1,313
	(1,104)	(146)

Other timing differences principally relate to share-based payments. The deferred income tax liability above includes £150,000 (2013: £200,000) 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**

	Number of shares (thousands)	Group		Company	
		2014 £'000	2013 £'000	2014 £'000	2013 £'000
Issued and fully paid ordinary shares of 10p each					
At 30 December 2013	72,157	7,216	7,087	7,216	7,087
Issue of new shares relating to employee incentive schemes	431	43	129	43	129
At 28 December 2014	72,588	7,259	7,216	7,259	7,216

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

## 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 ten years. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

### All employee sharesave scheme

These schemes are 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%-8% 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 ten 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 31 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	–
Granted	–	–	472	463.66	507	–
Exercised	(431)	194.18	–	–	–	–
Forfeited	–	–	(41)	464.94	(24)	–
At 30 December 2014	1,170	216.56	431	463.54	2,389	–

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

Expiry date	Type of scheme	Status	Exercise price (pence)	Number options	
				2014 ('000)	2013 ('000)
July 2017	Sharesave	Not exercisable	460.25	359	–
August 2017	Sharesave	Not exercisable	480.00	72	–
May 2018	Executive share option	Exercisable	199.50	249	385
May 2019	Executive share option	Exercisable	174.75	321	546
May 2020	Executive share option	Exercisable	246.00	600	670
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	759
April 2024	Long Term Incentive Plan	Not exercisable	nil cost	483	–

The fair value of options granted during 2014 determined using the Black-Scholes valuation model ranged from 78p to 469p per option. The significant inputs into the model were the exercise price shown above, volatility of 27% based on a comparison of similar listed companies, dividend yield of 3%, an expected option life of four years, and an annual risk-free interest rate ranging from 1.48% to 1.59%. See note 8 for the total expense recognised in the income statement for share options granted to Directors and employees.

## Notes to the financial statements continued

**24 Cash generated from operations**

Group	2014	2013
	£'000	£'000
Profit before income tax	25,188	24,872
Finance costs – net	874	902
Operating profit	26,062	25,774
Adjustments for non-cash items:		
Share of post tax profits of joint venture	(884)	(464)
Depreciation of property, plant and equipment	14,437	15,101
Amortisation of intangible assets	1,199	469
Loss on disposal of non-current assets	7	–
Adjustment in respect of employee share schemes	255	83
Changes in working capital:		
Inventories	424	(1,835)
Trade and other receivables	(112)	(15,983)
Pre-paid expenses	592	191
Trade and other payables	3,947	17,025
Accrued expenses	1,699	1,427
Cash generated from operations	47,626	41,788

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	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Property, plant and equipment	2,547	19,766	–	–

**(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:

Group	Land and buildings		Plant and equipment	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
No later than one year	6,019	6,358	802	687
Later than one year and no later than five years	15,043	17,855	2,025	1,359
Later than five years expiring 2020 to 2025	19,229	21,616	36	17
	40,291	45,829	2,863	2,063

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

Group	2014 £'000	2013 £'000
Woolworths Limited and subsidiaries – recharge of joint venture costs	1,245	1,794

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

Group	Owed from related parties	
	2014 £'000	2013 £'000
Woolworths Limited and subsidiaries	33	387

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

Company	2014 £'000	2013 £'000
Hilton Foods Limited – dividend received	11,000	9,750
Hilton Foods Limited – interest expense	140	229
Hilton Foods UK Limited – payment for Group relief	53	88

At the year-end £4,403,000 (2013: £7,225,000) was owed to Hilton Foods Limited and £53,000 (2013: £88,000) was owed by Hilton Foods UK 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:

Group	Loans and receivables	
	2014 £'000	2013 £'000
<b>Assets as per balance sheet</b>		
Trade and other receivables	111,193	119,347
Cash and cash equivalents	35,586	34,642
	<b>146,779</b>	<b>153,989</b>
Group	Other financial liabilities at amortised cost	
	2014 £'000	2013 £'000
<b>Liabilities as per balance sheet</b>		
Trade and other payables	152,702	156,246
Borrowings	43,260	29,720
	<b>195,962</b>	<b>185,966</b>

In addition to the above, amounts owed to the Company by Group undertakings of £53,000 (2013: £88,000) are classified as 'loans and receivables' and amounts owed by the Company to Group undertakings of £4,403,000 (2013: £7,225,000) are classified as 'other financial liabilities at amortised cost'.



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### Registered office

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