Annual report
and financial statements
2016

The leading specialist international meat packing business



Hilton Food Group plc, the leading specialist international meat packing business, announces its results for the 52 weeks to 1 January 2017.

2016 was a very strong year as Hilton continued to make good progress with volume and profit growth, range extension and the launch of a meat trading business despite competitive market conditions. The conclusion of a joint venture in Portugal and the development of a further factory in Australia demonstrates our geographical and operational growth and we continue to explore further expansion opportunities.

Overview

Strategic report

Governance

Financial statements

Highlights

2016 was a very strong year.

Strategic highlights

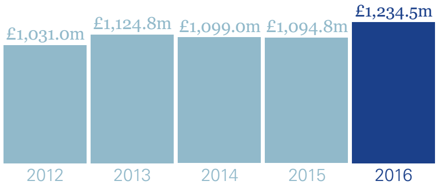
- Agreement with Woolworths to build and operate a new production facility in Queensland, Australia due to open in 2020
- Joint venture agreement signed since the year end with Sonae Modelo Continente, Portugal's leading food retailer following on from co-operation agreement
- Successful range expansion into fresh pizza production in Sweden and Central Europe
- Establishment of successful UK meat trading business

Operating highlights

- Higher volumes with a good performance in the UK and encouraging growth in our Irish business
- Ramp up of the facility in Melbourne, Australia
- Turnover growth up 7.2% on a like-for-like 52 week constant currency basis enhanced by favourable currency translation
- Strong growth in underlying profitability with operating profit up 11.7% on a like-for-like 52 week constant currency basis
- Continued strong cash generation and an ungeared balance sheet

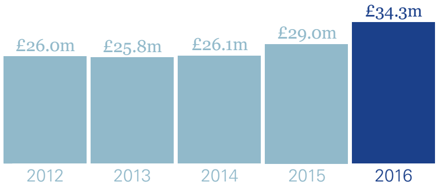
Revenue (£m)

£1,234.5m
+12.8%



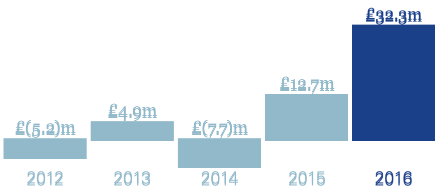
Operating profit (£m)

£34.3m
+18.4%



Net cash/(debt) (£m)

£32.3m
+154.3%



Where we operate

Production facilities in seven countries.

Ireland

Location
Drogheda

Customer
Tesco Ireland

Commenced production
2004

United Kingdom

Location
Huntingdon

Customer
Tesco UK

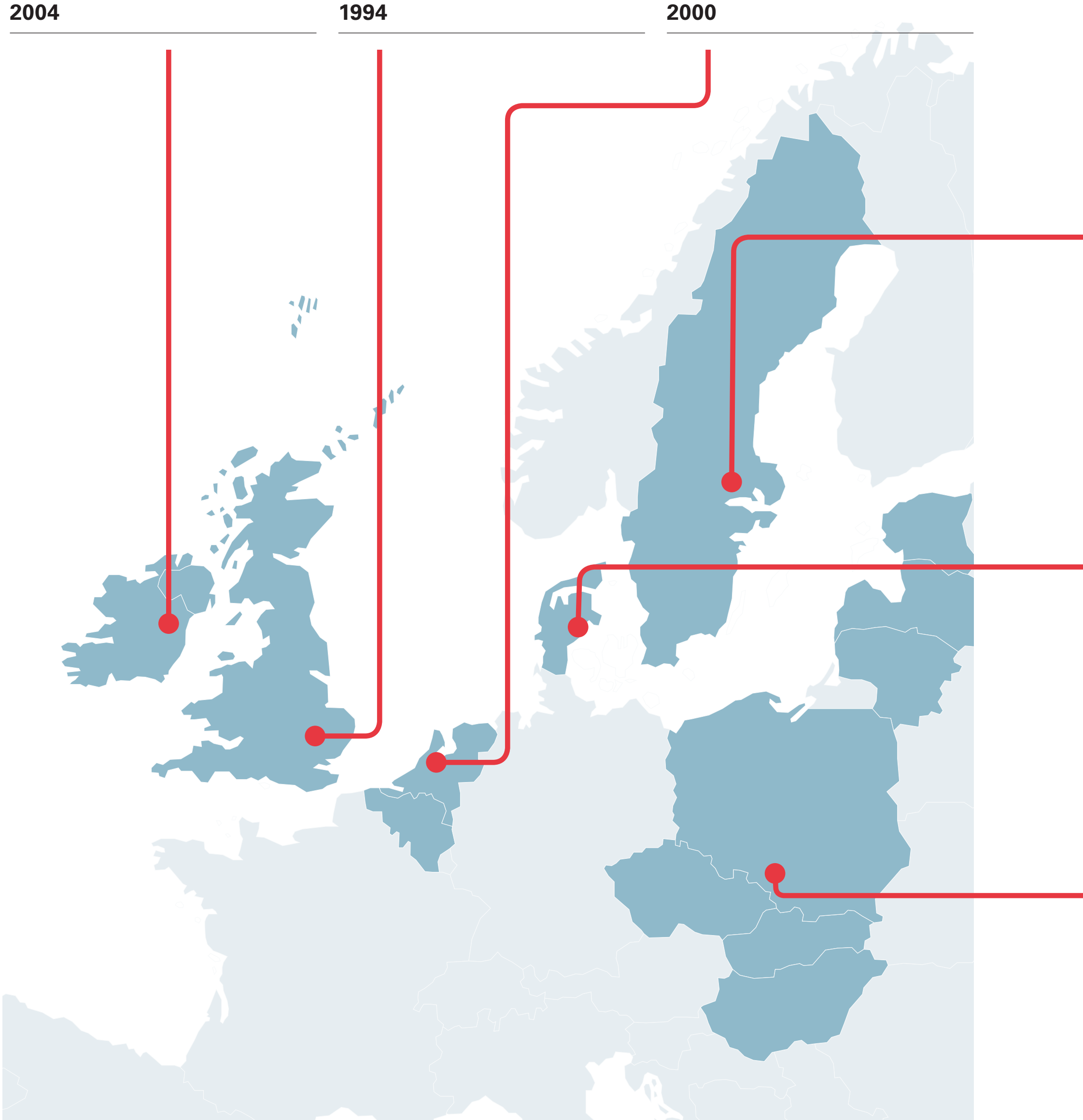
Commenced production
1994

Netherlands

Location
Zaandam

Customer
Albert Heijn

Commenced production
2000



Australia

Locations
Bunbury and Brisbane

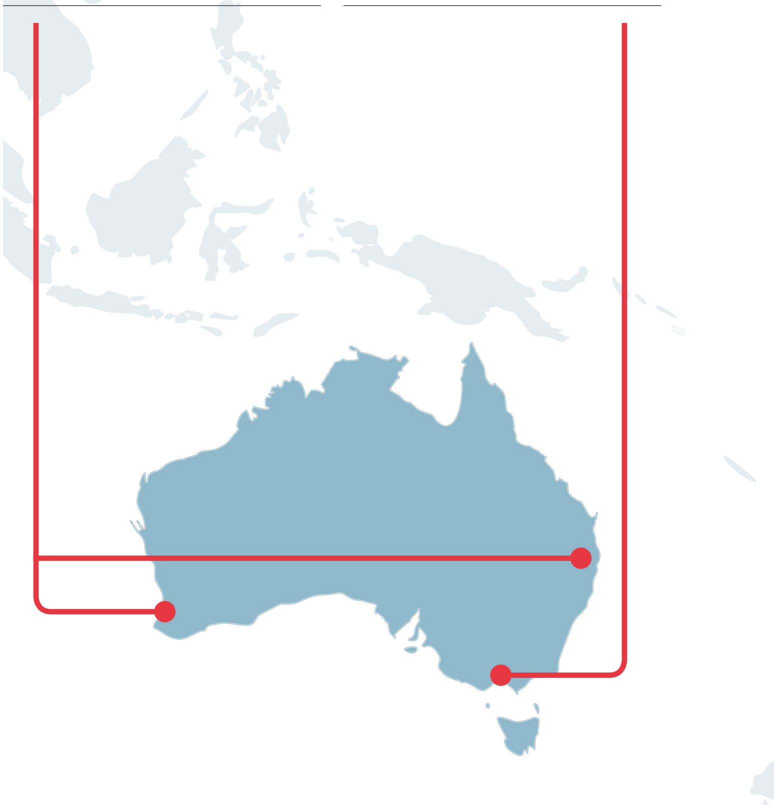
Customer
Woolworths

Commenced joint venture
2013

Location
Melbourne

Customer
Woolworths

Commenced production
2015



Sweden

Location
Vasteras

Customer
ICA Gruppen

Commenced production
2004

Denmark

Location
Aarhus

Customer
Coop Danmark

Commenced production
2011

Central Europe

Location
Tychy, Poland

Customers
Ahold (2006)
Tesco (2007)
Rimi (2009)

Commenced production
2006

Strategic report

Chairman's introduction

Colin Smith OBE
Non-Executive Chairman

Strategic progress

I am pleased to report continued progress in 2016 against our strategic objectives and a further expansion of our global footprint.

In December 2016 we announced plans to expand packing capabilities in Australia with the construction of a new factory in Queensland with our existing Australian partner, Woolworths Ltd, which Hilton will finance and operate. In January 2017 we announced the joint venture agreement with Sonae Modelo Continente, the leading food retailer in Portugal, our fourteenth European country. Our product range has increased to include fresh pizzas and we have successfully launched a new UK meat trading company. These developments bode well for Hilton's future.

Group performance

Despite competitive market conditions we grew our volume in 2016 maintaining a trend of continuous growth achieved in every year since Hilton's flotation in 2007. Strong underlying operating profit growth of over 11% was boosted further by favourable exchange translation movements to over 18%. Basic earnings per share at 33.7p were over 22% higher than last year.

Hilton continued to generate significant cash during 2016 enabling the Group's net cash position to grow from £12.7m at the end of 2015 to £32.3m at the end of the year. As well as being available to fund our new projects in Australia and Portugal we are well positioned to take advantage of other opportunities as they arise.

Continued progress against our strategic objectives.

Our continued investment in our facilities includes new technology to increase capacity, improve operational efficiency and offer innovative solutions to our retailer partners.

There is currently a climate of local, global and geopolitical uncertainties including the UK's decision to leave the European Union. Although the final terms of Brexit are unknown, Hilton's predominantly local sourcing and operating model leaves us well placed and we are confident that the Hilton business is resilient to weather these uncertainties.

Dividend policy

The Board considers that the Group's progressive dividend policy maintained since flotation remains appropriate, given both the strategic progress achieved in 2016 and Hilton's continuing strong level of cash generation. With the proposed final dividend of 12.5p per ordinary share for 2016, total dividends in respect of 2016 will be 17.1p per ordinary share, an increase of 17.1% compared to last year.

Our Board and governance

The Hilton Board is responsible for the long term success of the Group and, to achieve this, it contains an appropriate mix of skills and depth and a range of practical business experience, which is available to support and guide our management teams across a wide range of countries.

During the year I was elected as the Company's new Chairman. In addition two Non-Executive Directors, Sir David Naish and Chris Marsh, left the Board following completion of nine year terms and Theo Bergman also stepped down as an Executive Director due to personal circumstances. Each made a significant contribution to Hilton's business and they leave with our very best wishes. John Worby and Christine Cross joined the Board as Non-Executive Directors bringing significant experience in public companies, as well as food and retail sectors. I believe that their appointments complement our Board with additional experience and diversity. I would like to thank my colleagues on the Board for their support, counsel and expertise during the year.

We remain committed to achieving good governance and compliance with the UK Corporate Governance Code including succession planning and maintaining a talent pipeline.

Annual General Meeting

This year's AGM will be held at the Old Bridge Hotel, 1 High Street, Huntingdon, Cambridgeshire PE29 3TQ on 24 May 2017 at noon and my colleagues and I very much look forward to seeing those of you who are able to attend.

Colin Smith OBE
Non-Executive Chairman
29 March 2017

Chief Executive's summary

Robert Watson OBE
Chief Executive

Strategic objectives

Our strategy continues to be to support our customers' brands and their development in local markets, whilst achieving attractive and sustainable rates of growth in value for our shareholders. This straightforward 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 continuing progress.

Hilton seeks to build long term customer and shareholder value by focusing on:

- Growing volumes and extending product ranges supplied and services provided to its existing customers;
- Optimising the use of its assets and investing in new technology and capacity expansion as required;
- Maintaining a vigilant focus on food safety and integrity and reducing unit costs, while improving product quality and service provision; and
- Entering new territories and markets either with new customers or in partnership with our existing customers.

With new projects and continued focus on product development and range extension we are confident of making further progress.

We will continue to pursue measured geographical expansion and range extension, whilst at the same time actively developing, enriching, deepening and expanding the scope of our existing business partnerships, playing a full and proactive role in supporting our customers and the successful development of their brands.

Business model

Our business model is the means by which we deliver on our strategic objectives. The Hilton business model is proven and sustainable, whilst being relatively simple and straightforward. We operate large scale, 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 more 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 local sources and a wide international base of proven suppliers. It is then processed, packed and delivered to the retailers' distribution centres or stores. Our plants are highly automated and use advanced robotics for the storage of raw materials and finished products. Developing robotics 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.

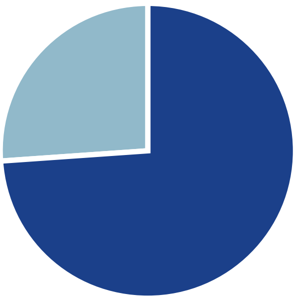
We seek to keep ourselves at the forefront of the meat packing industry, which helps ensure our continued competitiveness. We constantly look to drive efficiencies, always maintaining a pipeline of clear identifiable cost reduction initiatives and an open minded approach designed to continually challenge 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 past thirteen years 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. Following substantial investment in the UK in 2014, we continue to invest, working in partnership with our customer Tesco PLC. This has subsequently delivered double-digit growth and market-leading efficiencies, as well as product and packaging innovation all to the highest quality standards. Group capital expenditure over the period 2004-2016 has totalled £226m.

We have facilities in six countries in Europe each run by a local management team enhanced by specialist central leadership, expertise, 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, packing rate or volume based reward basis. These contractual arrangements, combined with our customer dedication, serve to maximise achievable volume throughput whilst minimising unit packing costs thereby delivering value to our customers. In Australia, our joint venture company receives a volume related management fee in respect of the facilities it operates on behalf of Woolworths.

Chief Executive's summary continued

74%

Volumes produced and sold outside the UK



Under the long term supply 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 key performance measures and targets designed to align our objectives with those of our customers.

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 solutions 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. This flexible approach towards and understanding of our local markets remains one of our core strengths.

Year	Country	Location	Customers
1994	UK	Huntingdon	Tesco UK
2000	Holland	Zaandam	Albert Heijn
2004	Ireland	Drogheda	Tesco Ireland
2004	Sweden	Vasteras	ICA Gruppen
2006	Central Europe	Tychy, Poland	Ahold CE (2006), Tesco CE (2007), Rimi (2009)
2011	Denmark	Aarhus	Coop Danmark
2013	Australia	Bunbury and Brisbane (2013), Melbourne (2015)	Woolworths

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 and in Australia, 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, appropriately adapted, can be successfully transferred to a number of new countries.

As well as our ability to provide excellent execution locally, we also have at our disposal a wide and deep expertise on a number of areas of specialism, such as engineering, food related IT applications, category management support and market intelligence. We are able to apply these skills to a number of markets to support our customers where required, and to do so in a cost-effective way.

Geographical spread

The Group's rapid 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. We are an international business in fourteen European countries and Australia with production facilities in the seven countries listed opposite including the dates operations commenced.

Our 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. Our facility at Zaandam also supplies Albert Heijn stores in Belgium.

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

With the signing of a joint venture agreement in early 2017, our joint venture company now manages Sonae's meat processing and packing facility in Portugal.

In 2016 some 74% of the Group's volumes were produced and sold in countries outside the UK.

Currency translation

The wide geographical spread of the Group increases its resilience by minimising its reliance on any one individual economy. This means that Hilton's results, as reported in Sterling, are sensitive to changes in the value of Sterling compared to the range of overseas currencies in which the Group trades. During 2016, the average exchange rates for the various overseas currencies in which the Group trades have all appreciated significantly against Sterling, compared with the corresponding period in 2015, specifically, the Euro by 12.5%, the Danish Krone by 12.7%, the Polish Zloty by 7.9%, the Swedish Krona by 11.3% and the Australian Dollar by 11.6%.

Culture and people

Successful businesses are principally 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 enabling 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, including equipment selection, IT solutions and ways of working along with the collaborative sharing of new learnings, ideas 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 and experiences 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.

The Group currently employs 2,898 employees in six European countries and Australia. Our business model is largely decentralised, with capable, largely self-sufficient management teams running our businesses in each local country. We consider this devolved structure to be a critical success factor, achieving close working relationships with our customers, who benefit from personal, 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 2016 and their continuing commitment to the Group's ongoing growth and development.

Chief Executive's summary continued

Performance overview

The overall performance of our business was strong across its three separate operating segments as outlined below.

Western Europe

Operating profit of £35.9m (2015: £32.1m) on turnover of £1,147.5m (2015: £1,020.7m)

This operating segment covers the Group's businesses in the UK, Ireland, Holland, Sweden and Denmark. On a comparable 52 week basis volumes were 3.8% higher than last year, principally reflecting good volume growth in the UK and encouraging growth in our Irish business. The range of products supplied was extended during the year to include fresh pizzas and meal boxes from our Swedish facility.

Sales on a like-for-like 52 week constant currency basis grew by 7.0% reflecting the higher volumes and boosted by the launch of Hilton Food Solutions, our new meat trading business which is a logical development given Hilton's procurement strengths and extensive global contacts in the meat trade.

Central Europe

Operating profit of £2.1m (2015: £2.3m) on turnover of £87.0m (2015: £74.1m)

In Central Europe the Group's meat packing business, based at Tychy in Poland, supplies customers across Central Europe, from Hungary to the Baltics. This multi-customer business 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. Volumes decreased by 4.5% due to competitive headwinds. Conversely sales grew by 8.8% at constant currency driven by increased raw material prices and a mix shift into beef. Range was extended to include fresh pizzas and sous vide products.

Central costs and other

Net operating cost £3.7m (2015: £5.4m)

This segment includes our share of the management fee earned by our joint venture with Woolworths of £3.1m (2015: £1.2m), start-up and support costs in connection with the joint venture of £0.6m (2015: £1.2m) and central costs of £6.2m (2015: £5.4m).

In Australia the Group has a joint venture with Woolworths, under which it earns a 50% share of the agreed management fees charged by the joint venture company to Woolworths 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 responsible for the operation of Woolworths' Western Australian meat processing centre in Bunbury, its Queensland meat processing centre in Brisbane and the new purpose built retail packing facility near Melbourne in Victoria which started production in September 2015.

Volumes in Australia grew by 134% in the year as the Melbourne facility ramped up production towards its normal operating capacity. In addition start-up costs reduced as expected. Central costs were higher as we increased our resources to manage our growth successfully and additionally the share scheme charge increased attributable to surpassing threshold performance.

Past and future trends

Over recent decades as major 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 likely to continue 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 as markets develop and change over time.

Within the wider retail market consumer patterns are continuing to change 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 and at a wider range of retail outlets. These developments which appear to be structural rather than cyclical reinforce the overall trend towards retail packed meat, as this is the meat offering in all these growth areas.

Outlook and current trading

Hilton's operating performance in the early months of 2017 has been in line with the Board's expectations. The Group will continue to explore opportunities for geographical expansion in both domestic and overseas markets and is well placed to capture those opportunities as they arise.

The medium term outlook for Hilton is positive with the commencement of the Portugal joint venture company and the planning phase for the new Queensland factory in Australia under way. With these new projects and continued focus on product development and range extension Hilton is confident of making further progress.

Robert Watson OBE
Chief Executive
29 March 2017

Performance and financial review

Nigel Majewski
Chief Financial Officer

Group performance

Hilton's financial performance was strong in 2016 boosted by favourable currency movements. Growth in operating profit was 18.4% and basic earnings per share 22.5% and 11.7% and 15.4% ahead on a comparable 52 week constant currency basis respectively. Continued strong cash flow generation significantly increased our net cash position. This performance and financial review covers the main highlights of the Group's financial performance and position in 2016.

Basis of preparation

The Group is presenting its results for the 52 week period ended 1 January 2017, with comparative information for the 53 week period ended 3 January 2016. The financial statements of the Group are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

2016 Financial performance

Revenue

Volumes grew by 7.4% in the year and by 8.9% on a like-for-like 52 week basis. Underlying volume increases were seen in the UK, Ireland, Holland, and Australia with lower volumes in Denmark and Central Europe. Additional details of volume growth by business segment are set out in the Chief Executive's summary. Revenue increased 12.8% and by 7.2% on a like-for-like 52 week constant currency basis attributable to the higher volumes and the new meat trading business.

A strong ungeared balance sheet with financial capacity for further expansion.

Operating profit and margin

Operating profit, at £34.3m was 18.4% above the previous year's level (2015: £29.0m) and 11.7% higher on a like-for-like 52 week constant currency basis. The operating profit margin in 2016 improved to 2.8% (2015: 2.6%), primarily reflecting higher Australia volumes and the operating profit per kilogram of packed meat sold was 12.5p (2015: 11.3p).

Net finance costs

Net finance costs of £1.1m matched the previous year's level (2015: £1.1m) with interest rates remaining 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 2016 remained high increasing to 31 times (2015: 28 times).

Taxation

The taxation charge for the period was £6.6m (2015: £6.5m). This represented an effective taxation rate of 19.7% (2015: 23.2%). The reduction in the effective tax rate is attributable to lower corporation tax rates in some countries and also due to higher joint venture income which is reported within operating profit on a post-tax basis under the equity method.

Net income

Net income, representing profit for the year attributable to owners of the parent, at £24.6m (2015: £20.0m) was 23.1% higher than last year reflecting the increase in operating profit and 16.1% higher on a like-for-like 52 week constant currency basis.

Earnings per share

Basic earnings per share at 33.7p (2015: 27.5p) were 22.5% higher than last year (15.4% on a like-for-like 52 week constant currency basis). Diluted earnings per share were 33.2p (2015: 27.2p).

Earnings before interest, taxation, depreciation and amortisation

EBITDA, which is used by the Group as an indicator of cash generation, increased by 11.4% to £54.0m (2015: £48.4m) mainly reflecting the increase in operating profit.

Free cash flow

Cash flow remained strong in 2016, with the Group generating free cash of £26.7m before dividends and financing (2015: £31.7m), after incurring capital expenditure of £16.4m. Group borrowings were £27.0m at the end of 2016 and, with net cash balances of £59.3m, this resulted in a closing net cash position of £32.3m, as compared with a net cash level of £12.7m at the end of 2015. At the end of 2016 the Group had undrawn overdraft and loan facilities of £99.2m (2015: £28.3m).

A strong ungeared balance sheet gives the Group considerable flexibility for potential future expansion. Given our propensity to generate free cash flow, we also consider that we are likely to have financial capacity for further expansion taking account of the recently announced expansion plans in Portugal and Queensland, Australia.

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 12.5p per ordinary share in respect of 2016. This, together with the interim dividend of 4.6p per ordinary share paid in December 2016, represents a 17.1% increase in the full year dividend, as compared with last year. The final dividend, if approved by shareholders, will be paid on 30 June 2017 to shareholders on the register on 2 June 2017 and the shares will be ex dividend on 1 June 2017.

£34.3m
Operating profit

£32.3m
Net cash

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 priorities. The nine headline KPI metrics used by the Board for this purpose, together with our performance over the past two years, is set out opposite:

Financial KPIs

12.8%

Revenue growth (%)
2015: (0.4%)

Definition, method of calculation and analysis
Year on year revenue growth expressed as a percentage. The 2016 increase reflected volume growth, mix shift and favourable exchange translation rate movements.

54.0

Earnings before interest, taxation, depreciation and amortisation (EBITDA) (£m)
2015: 48.4

Definition, method of calculation and analysis
Operating profit before depreciation and amortisation. The increase reflected higher underlying operating profits, together with higher depreciation charges.

2.8%

Operating profit margin (%)
2015: 2.6%

Definition, method of calculation and analysis
Operating profit expressed as a percentage of turnover. The increase in 2016 primarily reflected higher Australia volumes.

26.7

Free cash flow (£m)
2015: 31.7

Definition, method of calculation and analysis
Cash inflow before minorities, dividends and financing. Free cash flow continued to be strong but was lower than last year due to adverse working capital movements and higher tax payments.

12.5

Operating profit margin (pence per kg)
2015: 11.3

Definition, method of calculation and analysis
Operating profit per kilogram sold in pence. The increase in 2016 primarily relates to favourable exchange translation rate movements.

n/a

Gearing ratio (%)
2015: n/a

Definition, method of calculation and analysis
Year end net debt as a percentage of EBITDA. The Group was ungeared at the end of 2015 and 2016 being in a net cash position.

Non-financial KPIs

7.4%

Growth in volume of packed meat sales (%)
2015: 5.5%

Definition, method of calculation and analysis
Year on year volume growth, expressed as a percentage. Volume growth was seen principally in the UK, Ireland and Australia.

38.2

Employee and labour agency costs (pence per kg)
2015: 36.2

Definition, method of calculation and analysis
The increase reflects exchange translation rate movements.

98.6%

Customer service level (%)
2015: 99.2%

Definition, method of calculation and analysis
Packs of meat delivered as a % of the orders placed. Little year on year change, with high service levels being maintained throughout the year.

Performance and financial review continued

In addition, a much wider range of financial and operating KPIs are continuously tracked at business unit level.

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, most of its earnings are generated in other currencies, 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 its joint venture, and in the translation of overseas earnings.

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 and commodity price movements in some countries. 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 lengthy 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 successful and creditworthy 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 predominantly either on cost plus agreements or agreed packing rates with its customers.

Liquidity risk

This has for many businesses represented an area of concern over recent years, given the continuing difficult and uncertain economic environment in some countries. 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 statement

The Directors have performed a detailed assessment, including a review of the Group's budget for the 2017 financial year and its longer term plans, including consideration of the principal risks faced by the Group. Following this review, the Directors are satisfied that the Company and the Group have adequate resources to continue to operate and meet its liabilities as they fall due for the foreseeable future, a period considered to be at least 12 months from the date of signing these financial statements. For this reason they continue to adopt the going concern basis for preparing the financial statements.

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. 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 our 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 they are 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.

Viability statement

In accordance with provision C.2.2 of the 2014 revision of the UK Corporate Governance Code, the Directors confirm that they have a reasonable expectation that the Group will continue to operate and meet its liabilities, as they fall due, for the three years ending in December 2019. A period of three years has been chosen for the purpose of this viability statement as it is aligned with the Group's three year plan, which is based on the Group's current customers and does not incorporate the benefits from any potential new contract gains over this period.

The Directors' assessment has been made with reference to the Group's current position and strategy taking into account the Group's principal risks and how these are managed. The strategy and associated principal risks, which the Directors review at least annually, are incorporated in the three year plan and such related scenario testing as is required. The three year plan makes reasoned assumptions in relation to volume growth based on the position of our customers and expected changes in the macroeconomic environment and retail market conditions, expected changes in raw material meat, packaging and other costs, together with the anticipated level of capital investment required to maintain our facilities at state of the art levels. The achievement of the three year plan is not dependent on any new or expanded financing facilities.

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
Chief Financial Officer
29 March 2017

Risk management and principal risks

Risks and risk management

In accordance with provision C.2.1 of the 2014 revision of the UK Corporate Governance Code the Directors confirm that they have carried out a robust assessment of the principal risks facing the Group, including those which could threaten its business model, future performance, solvency or liquidity. 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 mitigation actions, enables us to monitor, minimise and control both the probability and potential impact of these risks.

How we manage risk

Responsibility for risk management across the Group, including the appropriate identification of risks and the effective application of actions designed to mitigate those risks, 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 takes a proactive approach to risk management with well-developed structures and a range of processes for identifying, assessing, prioritising and mitigating its key risks, as the delivery of our strategy depends on our ability to make sound risk informed decisions.

Risk management process and risk appetite

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

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. These risks, 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 recognised that systems of internal control are designed to manage rather than completely eliminate any identified risks.

The most significant risks the Group faces

The eight most significant business risks that the Group faces, have changed little, as might be expected with an unchanged and relatively straightforward business model. These risks, which will continue to affect the Group's businesses, together with the measures we have adopted to mitigate these risks, are outlined in the table on pages 23 to 25. 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 when it comes to contractual renewal terms at 5 to 10 year intervals.

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. The larger retail chains have over many years increased 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 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' proactive brand values, through providing high quality, competitively priced products, high service levels, continuing product and packaging innovation and category management support. 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 recent difficult economic periods. It expects to be able to continue to make progress, even if the current pressures on consumer spending, as expected, persist in some countries.

Risk management and principal risks continued

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 carefully manages its skilled resources including succession planning and maintaining a talent pipeline. Hilton continues 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, with efficient supply chain management being a key business attribute. 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 supply disruptions 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 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.

Description of risk

Significant incidents such as fire, flood or interruption of supply of key utilities could impact the Group's business continuity.

Its potential impact

Such incidents could result in systems or manufacturing process stoppages with consequent disruption and loss of efficiency which could impact the Group's sales.

Risk mitigation measures and strategies adopted

The Group has robust business continuity plans in place including sister site support protocols enabling other sites to step in with manufacturing and distribution of key product lines where necessary. Continuity management systems and plans are suitably maintained and adequately tested including building risk assessments and emergency power solutions. There are appropriate insurance arrangements in place to mitigate against any associated financial loss.

Description of risk

The Group's IT systems could be subject to cyber attacks including fraudulent external email activity. These kinds of attacks are generally increasing in frequency and sophistication.

Its potential impact

The Group's operations are underpinned by a variety of IT systems. Loss or disruption to those IT systems could impact the Group's ability to effectively operate its facilities and on its sales and reputation.

Risk mitigation measures and strategies adopted

The Group has a robust IT control framework which is tested frequently by internal staff and by specialist external bodies. There is internal training and resources available with emphasis on prevention, user awareness and recovery. Financial controls mitigate the risk of fraudulent payments being processed.

Corporate and social responsibility report

Taking care of our stakeholders and the environment

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. It is necessary that all parties in the meat supply chain including farms, abattoirs, supermarket retailers as well as Hilton work together collaboratively to ensure high welfare standards for animals from breeding, rearing, transportation and slaughter. This teamwork including 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.

A short and transparent supply chain with full traceability

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

Abattoir standards

Abattoir standards contribute significantly to the achievement of consistent meat quality and Hilton works closely with our retail partners to set best in class specifications ensuring humane and effective stunning and control of microbial contamination. Also pH and temperature drop is controlled according to best scientific practice. Meat is matured and boned according to clear and enforced primal specifications that are agreed between Hilton, its retail customers and abattoir suppliers.

Hilton develops long term trading partnerships with our suppliers by facilitating achievement of our retail customer requirements through auditing by third party experts and development of sustainable corrective action plans where any non-conformances are identified. We support our suppliers in applying abattoir standards covering factory structure, animal welfare standards, control of contamination through cleaning and disinfection, temperature controls, carcass dressing, boning and packing standards and traceability. Auditing as a means of challenging standards is now expected by consumers together with well established procedures throughout the food chain.

Hilton continually develops and refines testing methods, data collection and reporting particularly in the key area of fresh meat. 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

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 and additionally our retail customer 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 is routinely verified using hand swabbing checks.

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, Danish Meat Research Institute, British Meat Processors Association and Teagasc Ireland and through attendance at the annual International Conference of Meat Science and Technology.

Partnerships for growth

We forge partnerships across all aspects of our supply chain to enable us to strengthen our position as one of the leading global Business to Business food companies. Our core competency has always been building strong and productive partnerships with our retail customers in each geographical zone we are active in to supply high quality products at the right price to meet their demands. However, in an ever-changing business environment, the requirements of a true partnership go beyond the supply and demand approach. Our focus is to provide a unique, unrivalled service to our customers to support their market growth aspirations. We work closely with each of our customers to identify, both global and local, market trends which will help us create the next generation of products that will meet the everyday needs of their consumers. We have recently established two culinary innovation centres fully equipped with state of the art culinary equipment and staffed by some of the leading industry chefs and food technologists. The ambience of our culinary innovation centres has been designed to create an open and stimulating environment in which creativity can flourish.

There is nothing like good food to bring people together. So it is in our culinary innovation centres that we discuss and share concepts with our customers. Cooking, tasting and then making those all-important final tweaks to create the perfect concept. Our skilled chefs and technologists then set to work on the scale-up process taking the concepts from the kitchen pan to industrial products that can be consistently produced, on an industrial scale, maintaining organoleptic quality, product integrity and operational efficiency throughout the supply chain to meet all of our customers' expectations. With these facilities we deliver exciting, innovative and delicious product range extensions, seasonal product ranges and market leading innovative new products.

We also recognise that, in the culinary sense, the world is getting smaller. Through increased travel, celebrity chefs, the internet, etc. the everyday consumers have an insatiable appetite for novel, out-of-the-box culinary experiences. Whether they are from traditional local cuisine or exotic fusions of flavour where the dynamic European cuisine meets the spicy, exotic and mouth-watering cuisines of Asia. Rather than develop and maintain this very specific flavour expertise in-house we are establishing partnerships with key suppliers whose core capability is the development of innovative ingredients. By working closely in partnership with our suppliers we can combine our extensive and in-depth understanding of food production on an industrial scale with their expertise to develop a delicious portfolio of innovative products designed to match consumer expectations.

Corporate and social responsibility report continued

Taking care of our stakeholders and the environment

In parallel to our ingredient partnerships we also realise the value of building stronger alliances with key suppliers of the processing equipment that is required to deliver the large volumes of products that leave our manufacturing sites every day. Technology is changing at an ever increasing rate across the food industry resulting in new and exciting equipment entering the market which can improve the efficiency of operations and deliver new and innovative products whilst continuing to enhance the stability and security of the products offered to the consumer. Rather than waiting for new technologies to arrive on the market we are working in close partnership with key equipment suppliers to develop equipment that specifically meets the needs of our operations. To facilitate this we are creating a number of product focused centres of excellence which are the custodians of our internal technology know-how where we focus development programmes carried out in conjunction with our key partners. As well as being technology custodians the centres of excellence are responsible for the rapid roll out of successful innovations and developments across our businesses to ensure we consistently deliver operational excellence at each of our manufacturing sites.

Hilton is also closely aligned with our customers in our desire to minimise the environmental impact of our operations. We are therefore developing partnerships with our key suppliers of packaging materials as part of our sustainability agenda. On average over 1.25 million plastic trays leave our sites every day and we are conscious of the potential impact this may have on the environment. We are therefore working with our key suppliers in three work streams.

Firstly we are striving to maximise the use of recyclable trays across the Group and to date we have currently moved 16% of our production to recyclable trays. The second work stream is focusing on the use of re-cycled plastic in our product trays which results in significantly lower energy consumption in their manufacture. Finally we are continuously setting the industry standard for lighter product trays which therefore require less plastic. These are jointly developed and tested with our key suppliers to ensure that although lighter they are still robust enough to maintain the required functionality and stability attributes.

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 2016 we received a number of national food and taste awards. New products launched included fresh pizzas, meal boxes and sous vide products as well as rebranding and repackaging a vegetarian range.

Environment

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

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

Regulatory compliance

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

Carbon footprint and greenhouse gases

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

	Tonnes of CO_2e	
	2016	2015
Scope 1	4,069	4,100
Scope 2	21,195	21,392
Total	25,264	25,492

	Tonnes of CO_2e per tonne of product
2016	0.11
2015	0.11
2014	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:

	Cm³ of water use per tonne of product
2016	1.65
2015	1.55
2014	1.46

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 continuously strive, working 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 their 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 continuously 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 extensive use of state of the art packaging including skinpack technology 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

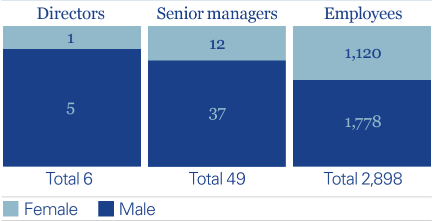
One of Hilton's top priorities is to achieve continual improvements in health and safety. The Group requires all its subsidiaries to achieve high health and safety standards within their individual operations. All subsidiaries conduct regular formal health and safety reviews. Managers and employees review 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. At Board level Philip Heffer, Chief Operating Officer, has 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 2016 are shown as follows:

	Average number of employees	Serious accidents	Recorded accidents per 100,000 hours worked	Sickness rate (%)
2016	2,948	40	5.2	3.6%
2015	2,912	36	5.2	3.5%
2014	2,447	33	5.2	4.5%

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.



Corporate and social responsibility report continued

Taking care of our stakeholders and the environment

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

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

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

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

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.

Approval of Strategic report

During 2016, Hilton made charitable donations amounting to £67,000 (2015: £35,000) comprising small but regular donations made to local institutions and sponsorship of personal charitable initiatives and to cultural and healthy lifestyle events. Additionally we donate surplus meat to food banks.

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.

Pages 07 to 31 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
29 March 2017

Governance

Board of Directors

Executive Directors

Robert Watson OBE
Chief Executive

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

Nigel Majewski
Chief Financial Officer

Nigel was appointed CFO 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

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 customers in the UK, Ireland, Continental Europe and Australia. 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
Executive Director – resigned 22 April 2016

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. His current role is to oversee various special projects. Prior to joining Hilton, Theo held senior logistics and general management positions with Ahold between 1987 and 2000.

Non-Executive Directors

Colin Smith OBE
Non-Executive Chairman

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 in senior finance roles including Finance Director and for the last six years as Chief Executive. Colin has held a number of board and advisory roles in the industry including the Chairmanship of Assured Food Standards and board advisor to Natures Way Foods. He was previously a Non-Executive Director of McBride plc and Chairman of Poundland Holdings Limited for 10 years until 2012 and thereafter a Non-Executive Director for a further two years before retiring in 2014. He is currently Chairman of the social enterprise The Challenge Network and a Non-Executive Director of LXi REIT plc. Colin was appointed Chairman of the Board on 25 May 2016 and is Chairman of the Nomination Committee.

John Worby
Non-Executive Director – appointed 22 March 2016

John Worby is a Chartered Accountant with a wealth of experience in public companies and the food sector. He was Group Finance Director at Genus plc retiring in 2013 and previously was Group Finance Director and Deputy Chairman of Uniq plc. John currently holds Non-Executive Directorships at Fidessa Group plc and Carr's Group plc and formerly was a Non-Executive Director at Cranswick plc and Connect Group plc. He is also a member of the Financial Reporting Review Panel. John is Chairman of the Audit Committee and is the Senior Independent Director.

Christine Cross
Non-Executive Director – appointed 22 March 2016

Christine Cross was originally a food scientist before devoting the 14 years to 2003 with Tesco in senior roles focusing on own brand, non-food and global sourcing. She has since worked globally with a wide range of food and non-food retailing businesses and currently holds Non-Executive Directorships with Coca-Cola European Partners plc, Sonae SGPS SA (Portugal), Brambles Limited (Australia), Kathmandu Holdings Limited (New Zealand) and several private companies as well as numerous advisory roles. Former Non-Executive Director positions were held until recently with Next plc and Woolworths Limited (Australia). Christine is Chair of the Remuneration Committee.

Sir David Naish DL
Non-Executive Chairman – retired 25 May 2016

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 was Chairman of the Nomination Committee.

Chris Marsh
Non-Executive Director – retired 27 March 2016

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 was the Senior Independent Director and Chairman of the Remuneration Committee.

Colin Smith, John Worby and Christine Cross are all members of the Remuneration, Audit and Nomination Committees.

John Worby and Christine Cross are considered to be independent.

Directors' report

The Directors present their report together with the audited financial statements for the 52 weeks ended 1 January 2017. Reference to other relevant information incorporated into this report is below.

Strategic report

The Strategic report on pages 07 to 31 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, future developments 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 26 to 30 which contains details of the Group's employment practices and greenhouse gas emissions.

Corporate governance and other statutory disclosures

The Corporate governance statement, Board Committee reports and Directors' remuneration report on pages 45 to 57 includes information required by DTR 7.2.

There are no disclosures required to be made under LR 9.8.4.

Principal activities

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

Results and dividends

The profit before income tax is £33.2m (2015: £28.0m).

An interim dividend of 4.6p per ordinary share was paid in December 2016. The Directors recommend the payment of a final dividend for the period which is not reflected in these accounts, of 12.5p per ordinary share totalling £9.2m, which, together with the interim dividend, represents 17.1p per ordinary share for the year. Subject to approval at the Annual General Meeting, the final dividend will be paid on 30 June 2017 to members on the register at the close of business on 2 June 2017. Shares will be ex dividend on 1 June 2017.

Directors and their interests

The Directors of the Company in office throughout 2016, together with their biographical details, are set out on pages 34 and 35. All the Directors served for the whole of the year under review unless stated. Chris Marsh retired on 27 March 2016, Theo Bergman left the Board on 22 April 2016 and Sir David Naish retired on 25 May 2016. John Worby and Christine Cross were appointed on 22 March 2016. Details of Directors' interests in shares are provided in the Directors' remuneration report on page 55.

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 Colin Smith and Nigel Majewski retire in accordance with the Articles of Association at the forthcoming Annual General Meeting and, being eligible, each offers himself for re-election.

Directors' indemnities

As permitted by law and its Articles of Association the Company has in place appropriate directors' and officers' liability insurance cover.

Substantial shareholdings

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

	Number of ordinary shares	Percentage of issued share capital	Nature of holding
Fidelity Management & Research	7,094,621	9.64%	Indirect
Standard Life Investments	6,370,370	8.66%	Indirect
AXA Investment Managers	4,330,000	5.89%	Indirect
G. Heffer	4,174,500	5.67%	Direct
R. Heffer	4,174,500	5.67%	Direct
Aberforth Partners	3,410,256	4.64%	Indirect
Santander Asset Management	3,167,028	4.30%	Indirect
Hargreave Hale	2,458,258	3.34%	Indirect

Additionally Directors' interests in shares total 9.66% and details are given on page 55.

Political donations

No donations for political purposes were made during the year (2015: £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 25 May 2016:
  - 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 25 August 2017.
- 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 34 and 35. Having made enquiries of fellow Directors and the Company's auditors, each of these Directors confirm that:

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

Independent auditors

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

Annual General Meeting

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

By order of the Board

Neil George
Company Secretary
29 March 2017

Corporate governance statement

The UK Corporate Governance Code

The Board has prepared this report with reference to the UK Corporate Governance Code issued by the Financial Reporting Council in September 2014 which applies to accounting periods beginning on or after 1 October 2014. The provisions of this Code can be obtained from www.frc.org.uk/corporate/ukcgcode.cfm.

This statement including the Board Committee reports and the Directors' remuneration report on pages 45 to 57 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 2016 complied with the ten requirements of this Code, taking into account the provisions for smaller companies.

The Board

Membership

At the date of this report the Board consists of three Executive Directors and three Non-Executive Directors whose names, responsibilities, brief biographies and membership of Board Committees are set out on pages 34 and 35. 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

John Worby, 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. Accordingly, Colin Smith and Nigel Majewski retire in accordance with the Articles of Association at the forthcoming Annual General Meeting and, being eligible, each offers him or herself 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 41 to 57.

Attendance at Board meetings

The following table sets out the Board meeting attendance by Board members, together with the percentage attended. Attendance at Board Committee meetings is set out in each Committee report.

	Number attended	Percentage attended
Robert Watson	11	100%
Philip Heffer	9	82%
Nigel Majewski	11	100%
Colin Smith	11	100%
John Worby	7	88%
Christine Cross	8	100%
Theo Bergman	3	100%
Sir David Naish	5	100%
Chris Marsh	3	100%

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 2016 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 Chief Financial Officer 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 07 to 31. Twice a year general presentations are given to analysts covering the annual and half year results. Additionally 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.

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 Board has carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity, which are summarised in the Risk management section on pages 22 to 25.

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 Chief Financial Officer 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
29 March 2017

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 1 January 2017.

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.

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, John Worby and the other Independent Non-Executive Directors, Colin Smith and Christine Cross. At least one member has recent and relevant financial experience and between them they have a wide experience of the food industry and commerce in general.

Other individuals such as the Chief Executive, Chief Financial Officer, Internal Auditor and the external auditors are invited to attend meetings as appropriate. 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 internal control and risk management systems;
- to monitor and review the effectiveness of the Company's internal audit function;
- to consider and make recommendations to the Board, to be put to shareholders for their approval in the general meeting, in relation to the appointment, reappointment and removal of the external auditors and to approve the remuneration and terms of engagement of the external auditors;
- 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;
- to meet with the external auditors and the head of internal audit at least once a year without management being present; and
- to report to the Board on how it has discharged its responsibilities.

Attendance at meetings of the Audit Committee

	Number attended	Percentage attended
John Worby	3	100%
Colin Smith	3	75%
Christine Cross	2	100%
Sir David Naish	2	100%
Chris Marsh	1	100%
Robert Watson	4	100%
Nigel Majewski	4	100%

How the Committee has discharged its responsibilities

During 2016 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 the Group continues to assess its cost plus contracts in relation to IFRIC 4 to determine whether they contain a lease. It was considered that there were no other critical accounting estimates or judgements involved in the application of the Group's accounting policies.

The external auditors identified complex supplier arrangements as an area of audit focus and the Committee fully considered this issue. 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 11 and information on the accounting policies adopted relating to revenue recognition are set out in note 2 on page 71. The Committee reviewed accruals in relation to these contracts at the year end. However 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 the 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 reviewed a paper prepared by the Finance Director relating to going concern and the Group's longer term viability 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 concerns had been raised 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 with the external auditors 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 (PwC), were appointed in 2007. Their lead partner is rotated every five years to ensure continued objectivity and independence.

It is the Committee's responsibility under its terms of reference to make recommendations to the Board on the appointment, reappointment or removal of external auditors.

Article 17 of EU Regulation 537/2014 enacted into UK law and now in force sets the maximum duration for an audit firm to conduct the statutory audit of a public interest entity as 10 years although can be extended to up to 20 years where a public tendering process is conducted every 10 years. 2016 represents the tenth year of PwC's tenure as external auditor to the Company and therefore an audit tender process was undertaken during the year under which PwC were eligible to be reappointed.

The audit tender process saw invitation letters sent to the incumbent external auditor and to two further audit firms which set out the process, defined selection criteria and the nine week timetable. Selection criteria included having a global presence, technical expertise, sector and public company experience, culture and fit. A data room was made available under which the invitees had access to relevant information and additionally management were made available for meetings and discussions as necessary. Each invitee presented to an audit panel chaired by the Chairman of the Audit Committee who fed back its assessment to the Committee. The preferred candidate was invited to present to the Committee following which the Committee made a recommendation to the Board. Thereafter the Board accepted the Committee's recommendation and accordingly PwC were reappointed as external auditors. The Committee considers that the selection procedure was conducted in a fair manner.

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 independence and performance of PricewaterhouseCoopers LLP and have therefore recommended to the Board that they should be reappointed 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. During the year the policy was amended to ensure compliance with Article 5 of the EU Regulation implemented in the UK into the FRC's Ethical Standard which prohibits the external auditor from providing specified non-audit services including tax services from 1 January 2017. PwC previously provided tax services to the Group and therefore following their reappointment as external auditors they are no longer permitted to provide these tax services. Accordingly KPMG have been appointed to provide the Group with tax services from 1 January 2017.

The level of non-audit fees was reviewed which in 2016 at £72,000 represents 27% of audit fees. This is below the EU cap of 70%. Further details of these costs can be found in note 6 on page 78. The Committee considers that this low level of non-audit fees does not affect the independence of the external auditors.

Other

The Committee reviewed its terms of reference.

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

John Worby
Chairman
29 March 2017

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 1 January 2017.

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. 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 attended	Percentage attended
Colin Smith	1	100%
John Worby	–	n/a
Christine Cross	–	n/a
Sir David Naish	1	100%
Chris Marsh	1	100%

How the Committee has discharged its responsibilities

During 2016 the Committee met once overseeing the transition of the Non-Executive Directors.

The Committee considered and recommended the appointments of John Worby and Christine Cross as Non-Executive Directors who in 2016 replaced Chris Marsh and Sir David Naish.

Hilton continues to develop 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

Colin Smith OBE
Chairman
29 March 2017

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 1 January 2017.

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 Chief Financial Officer, subsidiary company operations managers, the Group Audit Manager, 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;
- to oversee and advise the Board on the current risk exposures of the Group and future risk strategy; 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 it has discharged its responsibilities

During 2016 the Committee met eleven times (of which Nigel Majewski attended eleven meetings with 100% attendance) and focused on the key areas set out below.

- monitoring, identification and evaluation of potential risks to all the Hilton businesses;
- development of an enhanced building risk assessment process and emergency power solutions;
- regular monitoring of cyber risks and controls in place to prevent them;
- ensuring that business continuity management systems are suitably maintained and adequately tested;
- further refining the sister site support network across the Group in the event of any business interruption to a particular operating unit. This will build on already established practices for moving capacity on key product lines between sites and the establishment of central labelling equipment to significantly shorten reaction times making possible rapid support across the Group; and
- updating the Committee's terms of reference.

Conclusion

The Committee considers that the work performed as detailed above demonstrates that the Committee continues to operate effectively and discharge 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
29 March 2017

Directors' remuneration report

Chair's introduction

I am pleased to present the Directors' remuneration report for the 52 weeks ended 1 January 2017, my first since being appointed to the Board and to Chair the Remuneration Committee on 22 March 2016. This report sets out the Company's policy on Directors' remuneration as well as information on remuneration paid to Directors during the year. The report complies with the requirements of The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and has been prepared in line with the recommendations of the UK Corporate Governance Code and the UK Listing Authority Listing Rules (the 'Listing Rules').

Directors' remuneration major decisions and substantial changes

With the 2014 remuneration policy in its third and final year, the Committee carried out a comprehensive review of executive remuneration. The objective of the review was to ensure that executive remuneration is in line with good practice, that it is competitive but not excessive by market standards, it is aligned with our strategic objectives and the interests of our shareholders and wider stakeholders. Following the review the Committee consulted with leading investors and investor bodies and concluded that the current policy has worked well and does not require significant change.

2017 Remuneration Policy

Since the last Remuneration Policy was approved in 2014, Hilton Food Group has performed strongly, significantly outperforming the FTSE Small Cap index. The Company's strategy continues to be implemented successfully and the wide spread of the Group's operations across Europe and into the Asia Pacific region represents a material long term strength, in terms of progressively reducing Hilton's dependence on any one national economy, particularly during less certain economic times.

The Committee's comprehensive review covered the Executive Directors' packages including the incentive plans. The Committee is conscious of the current debate on quantum of executive pay and around the choice of incentive, but believes that the current remuneration structure, comprising an annual bonus and a long term incentive plan, supports the Company's strong performance culture and our key objective of creating long term shareholder value. As a result, no material changes to the existing Remuneration Policy are proposed except for the introduction of share ownership guidelines to bring ourselves in line with good practice and provide further alignment with shareholders. Under this guideline the Chief Executive and Chief Operating Officer will be expected to build minimum holdings in the Company's shares of 300% of base salary each, with a 100% of base salary target for other Executive Directors. Post-employment, half of this guideline (150% and 50% of salary) will continue to apply for a further 12 months.

The annual bonus opportunity shall continue to be 125% of base salary and the normal LTIP grant level remains at 100% of salary for all Directors. While the Committee is cautious of the use of benchmarking data, it is satisfied that both elements are around or below mid-market levels.

Implementation of policy in 2017

Basic salaries

As set out in last year's remuneration report, Theo Bergman stepped down from the role of Chief Executive Officer for Continental Europe and his responsibilities were taken on by the three current Executive Directors. To reflect this, the Committee decided to apply phased salary increases until the desired positioning had been achieved. The first increases were applied and became effective from 1 January 2016.

In reviewing salaries for 2017, the Committee considered Company and individual Director performance, changes in responsibility and levels of increase in the sector for the broader UK employee population.

The Committee noted the continuing successful growth and development of Hilton's business but recognised that with the increased size came greater complexity. This applies in particular in Australia where Hilton will be constructing and financing a new factory in Queensland and in Portugal where a new joint venture agreement has recently been signed. Additionally Theo Bergman stepped down from the Board in the year and therefore since 2012 the number of Hilton's Executive Directors has reduced from five to three. In view of the larger, more complex business, but with a smaller executive management team, the Committee concluded that increases in the basic salaries of the Executive Directors were warranted in order to be commensurate with the breadth of their roles, their significant experience, and the complex nature of an international business.

Therefore the Committee agreed basic salary increases of 10% for Robert Watson, Chief Executive and Philip Heffer, Chief Operating Officer and 7% for Nigel Majewski, Chief Financial Officer effective from 1 January 2017, noting that after these increases the aggregate of Hilton's Executive Directors' basic salaries will still be lower than in 2012. The Committee also agreed that increases in Executive Directors salaries over the following three years will be capped at no more than the increase of the general workforce except in the case of a promotion or substantive business expansion where a larger increase may be considered.

Furthermore, the increases have provided for greater capacity below the Board to nurture a strong talent pipeline and therefore, assist with the Board's succession planning. This is even more essential at Hilton where Directors have had considerable longevity.

Variable pay

The 2017 Executive Director bonus scheme financial element shall be measured against profit before tax rather than net income removing any tax implications which are largely out of management's control.

There will be a 20% award for threshold performance equalling the 2016 actual profit before tax level increasing on a straight line basis to a 105% of salary payout for performance of at least 110% of 2017 budgeted profit before tax or higher. A further strategic 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.

No changes are proposed to awards under the Long Term Incentive Plan which will continue to be based on a sliding scale of stretching EPS targets.

Directors' remuneration report continued

Performance and reward for 2016

Annual bonus

The Company performed strongly in 2016, with a 23.1% increase in net income on a reported basis. This resulted in performance above threshold but below maximum resulting in a bonus of 66.31% of salary becoming payable out of a maximum of 105% of salary.

The Committee determined that excellent progress had been made on the strategic objectives with full achievement of key objectives relating to expansion plans in the Australian business and the preparation of a joint venture in Portugal, as well as underlying growth objectives for the UK. Therefore 20% of salary became payable out of a maximum of 20%.

In aggregate a total bonus of 86.31% of salary is payable in respect of 2016 performance.

Long Term Incentive Plan

The LTIP award granted in 2014 was subject to performance against stretching EPS targets including threshold performance EPS growth of 8% per annum where 25% of the options would vest, rising to EPS growth of at least 13% per annum where 100% of the options would vest. Following the three year performance period ending 1 January 2017 EPS compound annual growth of 10.35% was achieved and it is expected that there will be vesting of 60.18% out of a maximum of 100%.

The Committee believes the annual bonus and LTIP outcomes are reflective of performance over the relevant one and three year performance periods.

Conclusion

The Committee carried out a comprehensive review of remuneration and consulted extensively with leading investors in putting together the 2017 remuneration policy. The Committee encourages dialogue with investors and stakeholders and I would be happy to discuss any of the matters set out in this report with you in more detail.

There will be an advisory resolution on the Directors' remuneration report (other than the Directors' remuneration policy) and a separate binding resolution on the Directors' remuneration policy at the 2017 AGM. On behalf of the Committee, I commend this report to you and ask for your support at the forthcoming Annual General Meeting.

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 original remuneration policy was passed by a binding shareholder vote at the Company's 2014 Annual General Meeting and became effective from the date of that meeting. The policy had a three year life and therefore a new policy, as set out below, will be proposed as a resolution subject to a binding shareholder vote at the Company's 2017 Annual General Meeting.

The new policy has taken into account the provisions contained within the UK Corporate Governance Code and other good practice guidelines from institutional shareholders and shareholder bodies. Subject to approval by shareholders it will become effective from that AGM date and shall be in place for the next three year period unless a new policy is presented to shareholders before then. All payments to Directors during the policy period will be consistent with the approved policy.

Overview of remuneration policy

The revised policy, developed following a comprehensive remuneration review, has the following objectives:

- To develop a remuneration structure which supports the Company's strong performance culture and our key objective of creating long term shareholder value;
- To enable the Company to recruit and retain Executives with the capability to lead the Company on its ambitious growth path;
- To reflect principles of best practice; and
- To ensure our remuneration structures are transparent and easily understood both internally and externally.

As a result of our remuneration review the only key change proposed relates to the introduction of share ownership guidelines. In line with best practice and to ensure long term alignment with shareholders, shareholding guidelines of a minimum of 300% of base salary for the current Chief Executive and Chief Operating Officer and a 100% guideline for all other Directors will be introduced. Half of the guideline (150% and 50% of salary) will apply for a 12 month period post cessation of employment.

Remuneration policy table

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 levels within relevant FTSE and industry comparators on a periodic basis although this is only one factor that is taken into account when determining pay levels and increases. The Committee considers the impact of any basic salary increase on the total remuneration package. Pay levels throughout the organisation are also taken into account in order to ensure adequate provision for timely succession.	For Messrs Watson, Heffer and Majewski, following the implementation of the proposed 2017 increases as set out in this Remuneration report, increases in 2018 and 2019 will be capped by the increases made to the general workforce (except in cases of promotion or if there has been a substantive business expansion). For future directors this cap does not apply. On occasion it may be appropriate for a new director to be positioned on a below market base salary but then to provide above market increases as the executive gains experience in the role.
Benefits	To provide market competitive benefits to ensure the retention of employees	The Company typically provides: – Company car and fuel; – Private healthcare; and – Other ancillary benefits, including relocation expenses (as required). Any reasonable business related expenses (including tax thereon) may be reimbursed. Executive Directors are eligible for other benefits which are introduced for the wider workforce on broadly similar terms.	The value of traditional benefits is based on the cost to the Company and is not pre-determined. Relocation expenses or benefits will take into account the nature of the relocation and will be provided on a fair and reasonable basis.
Pension	To provide adequate retirement benefits	Employer contributions are made to money purchase pension schemes or in certain circumstances a salary supplement may be paid in lieu of such pension contributions.	Up to 15% of basic salary.
Annual bonus	To encourage and reward delivery of the Company's short term financial and/or strategic objectives	The Committee will review performance metrics at the start of the year. Performance criteria will be aligned to the Company's strategic objectives at that time. The majority of the bonus will be linked to challenging financial metrics, which will typically include a measure of profit. Strategic or other individual targets may be used to determine a minority of the bonus outcome. For financial measures, typically a sliding scale of targets will be set. Where operated, no more than 20% of that element shall be payable for threshold performance. It may not be possible to set sliding scale targets for individual or strategic measures but full disclosure on the objectives and performance against these will be provided on a retrospective basis. At the start of the performance year, the Committee may determine that a proportion of the bonus is deferred in shares. If a proportion of bonus is deferred in shares, the value of any dividends payable on those shared during the vesting period may be payable. Bonuses are subject to claw-back in circumstances of misstatement, error or gross misconduct.	Up to 125% of basic salary.

Directors' remuneration report continued

Element	Purpose and link to strategy	Operation	Maximum opportunity
Long term incentives	To encourage and reward delivery of the Company's medium term objectives. To provide a way of building up a meaningful shareholding in the Company and providing alignment with shareholders' interests	Under its Long Term Incentive Plan (LTIP) Hilton makes annual awards of conditional shares or nil cost options to selected senior executives. Awards vest subject to continued employment and satisfaction of challenging performance conditions measured over three years to be satisfied by the issue of new shares or through purchasing shares in the market. The performance measures shall normally be weighted towards EPS with performance targets determined at the date of grant with up to 25% vesting at threshold performance. The Committee may introduce new or reweight existing performance measures so that they are aligned with the Company's strategic objectives at the start of each performance period. The Committee will consult with leading shareholders before introducing a new measure. Awards are subject to claw-back for three years following vesting in circumstances of material misstatement, error or misconduct. Dividend equivalents may be paid on the value of dividends paid during the vesting period or any holding period (if applicable). The payment may be in the form of additional shares or cash and may assume reinvestment. The Committee has the discretion in certain circumstances to grant and/or settle an award in cash.	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.
All employee share schemes	To encourage employee share ownership and thereby increase their alignment with shareholders	All employees are eligible to join any permissible employee scheme. Executive Directors will be eligible to participate in any all employee share plan operated by the Company on the same terms as other eligible employees. Under Hilton's current Sharesave Scheme (HMRC approved for the UK and Ireland) regular savings over three years is followed by a six month period to exercise the options granted. No performance conditions attach to options granted under the Scheme.	The maximum level of participation is subject to the limits imposed by HMRC from time to time (or a lower cap set by the Company).
Shareholding guidelines	To further align Executive Directors' interests with those of long term shareholders and other stakeholders	Executive Directors are expected to build a holding in the Company's shares equal to a minimum value of 300% of base salary for the Chief Executive and Chief Operating Officer and 100% of base salary for all other Directors. To the extent that this guideline has not been achieved, executives are normally required to retain 50% of any vested share awards (after the sale to meet tax obligations). Half of the guideline requirement will apply for 12 months post-employment.	N/A

Element	Purpose and link to strategy	Operation	Maximum opportunity
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 fees for carrying out their duties. Fees are reviewed periodically. A base fee is augmented for Committee Chairmanship or membership to take into account the additional time commitment and responsibilities associated with those committees. Neither the Chairman nor the Non-Executive Directors are eligible for any performance related remuneration. 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. If there is a temporary yet material increase in the time commitments for Non-Executive Directors, the Board may pay extra fees on a pro-rata basis to recognise the additional workload. Additional fees may be payable in relation to extra responsibilities undertaken such as chairing a Board Committee and/or Senior Independent Director role or being a member of a committee. Any reasonable business-related expenses (including tax thereon) can be reimbursed if determined to be a taxable benefit.	As for the Executive Directors, there is no prescribed maximum annual increase. Any increases to fee levels will take into account the general salary increase for the broader UK employee population, the level of time commitment required to undertake the role and the level of fees paid in the general market.

Notes

1. As Hilton operate in a number of geographies remuneration practices vary across the Group. However, employee remuneration policies are based on the same broad principles and the remuneration policy for the Executive Directors is designed with regard to the policy for employees 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.
2. The choice of the annual bonus financial element shall be determined at the start of each year based on the key business priorities for the year. The majority is likely to be based on clear financial targets including a significant weighting on profit since this is the primary financial measure and a driver of company value and dividend.
3. The long term incentive metrics are determined at the time of grant. Performance metrics may include a measure of profitability such as EPS and any other metric which aligns the incentive with long term returns to shareholders. EPS growth is a key financial metric and a driver of company value dividend.
4. Long term incentive and Sharesave schemes are operated in accordance with their respective Scheme and other rules under which the Committee has some discretion relating to their administration which is consistent with market practice. Under the LTIP such discretion covers:
   - participation;
   - the timing of the grant of award and/or payment;
   - 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.
5. The Committee retains discretion to adjust the long term incentive vesting outcome if it feels that the level of vesting is not commensurate with performance over the period. The Committee, in using its discretion, would act fairly and reasonably and would seek to consult with shareholders prior to the use of any upwards discretion.

Directors' remuneration report continued

Other policy information

Element	Description
Non-UK based Directors and foreign currency translation	Directors may be employed who are based outside of the UK and therefore subject to the employment laws and accepted practice for that country which may be different to those in the UK. The Committee will ensure that any future overseas based Directors are remunerated on an equivalent basis as in the UK albeit that it may be necessary to satisfy local statutory requirements. Remuneration to overseas Directors paid in foreign currencies is, for disclosure purposes, translated into Sterling at the average exchange rate for the relevant year.
Approach to recruitment	The remuneration package for a new Executive Director would be set in accordance with the terms of the Company's approved remuneration policy in force at the time of appointment. For the appointment of a new Chairman or Non-Executive Director, the fee arrangement would be set in accordance with the approved remuneration policy in force at that time. The salary for a new Executive Director shall take into account the experience and calibre of the individual and the market rate required for recruiting him or her. The initial salary 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. Depending on the timing of the appointment, the Committee may deem it appropriate to set different annual bonus performance criteria for the remainder of the first performance year of appointment. The bonus would be pro-rated to reflect the portion of the year in employment. In addition, an LTIP award can be made shortly following an appointment (assuming the Company is not in a closed period). The maximum bonus and LTIP grant level will be in accordance with the maxima outlined in the policy table. If an individual is forfeiting remuneration from his or her previous employer, 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. The aim of any such award would be to ensure that so far as possible, the expected value and structure of the award will be no more generous than the amount being forfeited. Shareholders will be informed of any such payments in the remuneration report. For an internal Executive Director appointment, any variable pay element awarded in respect of the prior role will be allowed to pay out according to its terms. In addition, any other ongoing remuneration obligations existing prior to appointment may continue. For external and internal Executive Director appointments the Committee has the discretion to pay ongoing relocation costs for a reasonable period, as well as one-off payments (assuming they are fair and reasonable). Any share-based awards referred to in this section will be granted as far as possible under the Company's existing share plans. If necessary, awards may be granted outside of these plans as permitted under the Listing Rules.
Payment for loss of office	Payments for loss of office are made in accordance with the terms of the Directors' service contracts as below. On termination no bonus is payable unless the Committee determines good leaver circumstances apply where, subject to performance conditions, a pro-rata bonus may be payable at the Company's discretion. LTIP awards will generally lapse on cessation although they may be capable of vesting in certain good leaver situations. For good leavers, outstanding share awards may vest at the original vesting date, or on the date of cessation if the Committee decides, subject to time pro-rating and the performance conditions being satisfied. The Committee has the discretion to disapply time pro-rating or apply it to a lesser extent if it feels it is appropriate to do so. 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. The Committee may pay reasonable outplacement and legal fees where considered appropriate. In addition, the Committee may pay any statutory entitlements or settle or compromise claims in connection with a termination of employment, where considered in the best interests of the Company.
Consideration of shareholder views	The Committee is always interested in shareholder views and is committed to an open dialogue. Accordingly, the Committee will seek to engage with major shareholders on any proposed significant changes to its remuneration policies or in the event of a significant exercise of discretion. The Committee considers shareholder feedback received in relation to each AGM alongside views expressed during the year. In addition, we engage actively with our largest shareholders and consider the range of views expressed.
Consideration of employment conditions elsewhere in the Group	The Committee takes into account the general employment reward packages of employees across the Group when setting policy for Executive Director remuneration and is kept informed of changes in pay across the Group. Employees have not previously been actively consulted on Director remuneration policies but this may be considered in future where appropriate.

Director service contract and other relevant information

Provision	Executive Directors	Non-Executive Directors
Term	All appointed on 24 April 2007 with no fixed term	Colin Smith 3 years from 25 May 2016 John Worby and Christine Cross 3 years from 22 March 2016
Re-election at AGM	Every 3 years	Every 3 years
Notice period	Up to 12 months for both the Company and the Director. The service contract policy for new appointments will be on similar terms as existing Directors	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
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
External appointments	External appointments can be held and earnings retained from such appointments with the Company's permission	N/A

Inspection

Executive Director service agreements and Non-Executive Director appointment letters are available for inspection at the Company's registered office.

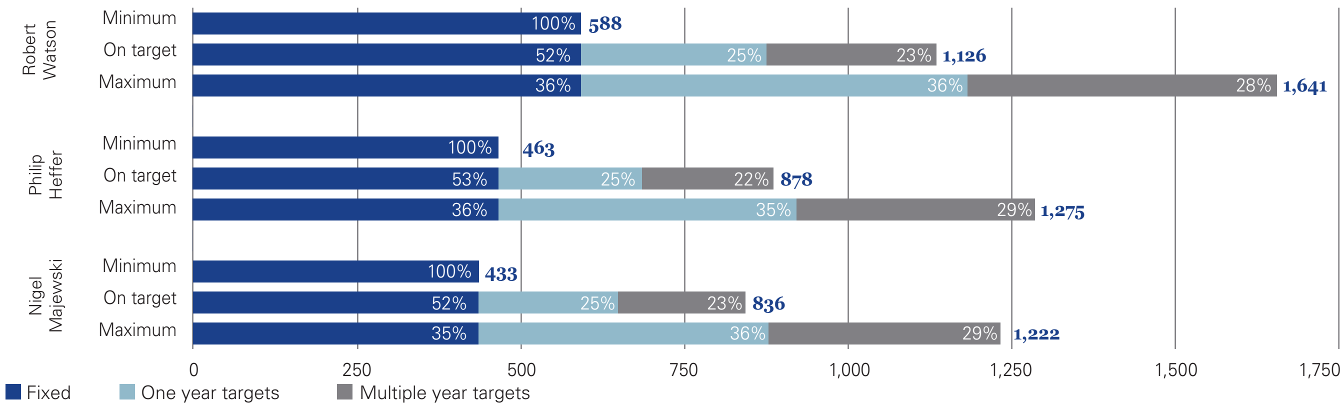
Legacy arrangements

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 report on remuneration as they arise.

Illustration of future application of remuneration policy

The chart below illustrates 2017 Executive Directors' remuneration at different levels of performance under the remuneration policy.

2017 Directors' remuneration illustration £'000



Notes

1. Fixed elements of pay comprise salary and fees, benefits and pension. Salary and fees include known increases, benefits are included at 2016 levels and pension is calculated at the approved percentage rates.
2. One year targets represent the annual bonus. The minimum scenario assumes no bonus on the basis that threshold is not reached, the on target scenario assumes an aggregate 60% of salary bonus, and the maximum scenario assumes the full 125% bonus.
3. Multiple year targets comprise long term incentives. The minimum scenario assumes that threshold performance is not reached with no awards vesting, the on target scenario is based on 55% of the awards vesting and the maximum scenario reflects the maximum performance with 100% of the awards vesting.

Directors' remuneration report continued

Annual report on remuneration

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.

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. At the beginning of 2016 the Committee comprised 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. Chris Marsh and Sir David Naish stepped down from the Board during the year and were replaced by John Worby and Christine Cross who both joined the Remuneration Committee with Christine Cross elected as its Chair.

Other individuals such as the Chief Executive and external advisors may be invited by the Committee to attend meetings as and when required. The Company Secretary is in attendance at all meetings.

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 approving 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 attended	Percentage attended
Christine Cross	5	100%
Colin Smith	6	100%
John Worby	5	100%
Chris Marsh	1	100%
Sir David Naish	2	100%

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 £40,558 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.

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 1 January 2017 the headroom available under these limits was 3.2% 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 advisory resolution to approve the 2015 Directors' remuneration report was unanimously passed on a show of hands at the AGM held in the year. The proxy vote was as follows:

	Approve Directors' remuneration report
Resolution type	Advisory
Votes for	46,537,244
%	99.96%
Votes against	19,077
%	0.04%
Votes withheld	162,589

The remainder of this section is subject to audit.

Single total figure table of remuneration

The remuneration of individual Directors is set out below.

52 weeks to 1 January 2017	Salary and fees (note 1) £'000	Benefits (note 2) £'000	Annual bonus (note 3) £'000	Long term incentive (note 4) £'000	Pension (note 5) £'000	Total £'000
Executive Directors						
Robert Watson	426	50	368	265	64	1,173
Philip Heffer	328	48	283	212	49	920
Nigel Majewski	328	29	283	212	49	901
Theo Bergman	109	7	–	–	30	146
Non-Executive Directors						
Colin Smith	86	–	–	–	–	86
John Worby	43	–	–	–	–	43
Christine Cross	43	–	–	–	–	43
Sir David Naish	36	–	–	–	–	36
Chris Marsh	12	–	–	–	–	12
Total	1,411	134	934	689	192	3,360

53 weeks to 3 January 2016	Salary and fees £'000	Benefits £'000	Annual bonus £'000	Long term incentive £'000	Pension £'000	Total £'000
Executive Directors						
Robert Watson	387	47	292	–	58	784
Philip Heffer	310	45	234	–	46	635
Theo Bergman	320	19	223	–	115	677
Nigel Majewski	310	29	234	–	40	613
Non-Executive Directors						
Sir David Naish	90	–	–	–	–	90
Chris Marsh	50	–	–	–	–	50
Colin Smith	50	–	–	–	–	50
Total	1,517	140	983	–	259	2,899

Notes

1. Salary and fees

   2016 salaries reflect a 10% increase for Robert Watson and 6% increase for Philip Heffer and Nigel Majewski on 2015. The salary disclosed in respect of Theo Bergman includes an 8% holiday allowance.

2. Benefits

   Benefits provided included company car and fuel and private healthcare.

3. Annual bonus

   The 2016 annual bonus has two elements. The financial element bonus was based on net income which, above threshold performance, was calculated on a sliding scale up to the maximum for achievement of the stretch target. A strategic element bonus was available based on achievement of personal objectives. The bonus outcome for 2016 for all Executive Directors is summarised below.

Bonus element	Metric	Threshold performance	Target performance	Maximum stretch target	2016 achieved
Financial	Net income	£20.0m	£22.9m	£27.1m	£24.6m
	% against target	87%	100%	118%	107%
	% of base salary	20%	40%	105%	66.31%
Strategic	% of base salary			20%	20.00%
Total	% of base salary			125%	86.31%

The strategic bonus element achievement related to key objectives around expansion plans in the Australian business and the preparation of a joint venture in Portugal, as well as underlying growth objectives for the UK business all of which were fully achieved.

In 2015 net income exceeded the threshold achieving 104.7% of 2015 budgeted net income which resulted in a financial element bonus of 55.54% of salary. A 20% of salary bonus was paid to each Executive Director in respect of the strategic metric in view of good strategic progress and very strong underlying profit. Accordingly a total bonus of 75.54% of salary was paid during the year to all Executive Directors.

Directors' remuneration report continued

4. 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 2016 there are incentive awards options under the Long Term Incentive Plan due to vest during 2017 subject to performance conditions covering the three years 2014-2016. The expected long term incentive outcome is summarised below.

Metric	Threshold performance	Maximum performance	2016 achieved
2014-16 EPS % annual growth	8%	13%	10.35%
Vesting %	25%	100%	60.18%

Director	Awards granted No.	Awards expected to vest 60.18% No.	Value at year end share price of £6.20 £'000
Robert Watson	71,046	42,755	265
Philip Heffer	56,836	34,204	212
Nigel Majewski	56,836	34,204	212

In 2015 there were incentive awards options under the Long Term Incentive Plan due to vest during 2016 subject to performance conditions covering the three years 2013-2015. The earnings per share performance metric for that period fell short of the threshold 5% compound annual growth target and accordingly there was 0% vesting.

5. Pension

Payments were made during 2016 and 2015 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).

6. Payments to past directors

Theo Bergman left the Board on 22 April 2016 but continued to be employed by the Group on his existing salary package for the remainder of the year although he was not entitled to an annual bonus. Payments made in 2016 since his departure from the Board comprised salary (including holiday allowance) £244,000, benefits £15,000 and pension £68,000. As he continues to be employed he retains an interest in share awards granted.

No other payments were made to former directors in 2016 or 2015.

7. Payments for loss of office

No payments for loss of office were made in 2016 or 2015.

Director shareholding and share interests

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

Director	Type	At 3 January 2016	Granted (note 5)	Exercised	Lapsed	At 1 January 2017	Exercise price (pence)	Earliest exercise date	Latest exercise date	Notes
Robert Watson	Shares	2,926,380				2,821,380				1
	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
	Share options	2,142	–	–	–	2,142	420.00	01.06.18	01.12.18	4
	Total share options	134,707	–	(130,610)	–	4,097				
	Nil cost options	102,228	–	–	(102,228)	–	nil	08.05.16	08.05.23	3(a)
	Nil cost options	71,046	–	–	–	71,046	nil	28.04.17	28.04.24	3(b)
	Nil cost options	86,359	–	–	–	86,359	nil	20.04.18	20.04.25	3(c)
	Nil cost options	–	74,055	–	–	74,055	nil	25.04.19	25.04.26	3(d)
	Total nil cost options	259,633	74,055	–	(102,228)	231,460				
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
	Share options	2,142	–	–	–	2,142	420.00	01.06.18	01.12.18	4
	Total share options	373,092	–	(368,995)	–	4,097				
	Nil cost options	81,830	–	–	(81,830)	–	nil	08.05.16	08.05.23	3(a)
	Nil cost options	56,836	–	–	–	56,836	nil	28.04.17	28.04.24	3(b)
	Nil cost options	69,088	–	–	–	69,088	nil	20.04.18	20.04.25	3(c)
	Nil cost options	–	57,090	–	–	57,090	nil	25.04.19	25.04.26	3(d)
	Total nil cost options	207,754	57,090	–	(81,830)	183,014				
Nigel Majewski	Shares	91,760				91,760				1
	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
	Share options	2,142	–	–	–	2,142	420.00	01.06.18	01.12.18	4
	Total share options	108,585	–	(104,488)	–	4,097				
	Nil cost options	81,830	–	–	(81,830)	–	nil	08.05.16	08.05.23	3(a)
	Nil cost options	56,836	–	–	–	56,836	nil	28.04.17	28.04.24	3(b)
	Nil cost options	69,088	–	–	–	69,088	nil	20.04.18	20.04.25	3(c)
	Nil cost options	–	57,090	–	–	57,090	nil	25.04.19	25.04.26	3(d)
	Total nil cost options	207,754	57,090	–	(81,830)	183,014				
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	88,374	–	–	(88,374)	–	nil	08.05.16	08.05.23	3(a)
	Nil cost options	60,828	–	–	–	60,828	nil	28.04.17	28.04.24	3(b)
	Nil cost options	67,260	–	–	–	67,260	nil	20.04.18	20.04.25	3(c)
	Nil cost options	–	56,722	–	–	56,722	nil	25.04.19	25.04.26	3(d)
	Total nil cost options	216,462	56,722	–	(88,374)	184,810				
Colin Smith	Shares	50,000				50,000				1
John Worby	Shares	–				7,000				1
Christine Cross	Shares	–				5,000				1
Sir David Naish	Shares	60,000				60,000				1
Chris Marsh	Shares	30,000				30,000				1

Notes

1. There is no current requirement for Directors to hold shares in the Company although there is a share ownership guideline proposed in the new Directors' remuneration policy. All shares are beneficially owned with the exception of 1,316,917 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 50,000 shares. There have been no other changes in the interests of Directors between 1 January 2017 and the date of this report.
2. Executive Share Option Scheme awards which have vested.
3. Nil cost options granted under the Long Term Incentive Plan which are subject to a performance condition of compound growth in the Group's earnings per share over three financial years commencing with the year in which the awards were granted.
   (a) Awards vest on a sliding scale between 25% for 5% EPS compound annual growth and 100% for at least 10% EPS compound annual growth.
   (b) Awards vest on a sliding scale between 25% for 8% EPS compound annual growth and 100% for at least 13% EPS compound annual growth.
   (c) Awards vest on a sliding scale between 10% for 6% EPS compound annual growth and 100% for at least 18% EPS compound annual growth.
   (d) Awards vest on a sliding scale between 10% for 5% EPS compound annual growth and 100% for at least 17% EPS compound annual growth.
4. Share options granted under Hilton's all employee Sharesave Scheme.
5. Face value of the nil cost option awards granted in the year were Robert Watson £425,817, Philip Heffer £328,266, Theo Bergman £326,154 and Nigel Majewski £328,266 based on the actual share price at date of grant of 575.00 pence on 22 April 2016.

Directors' remuneration report continued

Further information

Statement of implementation of remuneration policy in the 2017 financial year

Base salaries, benefits and pension

For 2017 Executive Director salaries have increased by 10% for Robert Watson and Philip Heffer and 7% for Nigel Majewski. These increases reflect the additional responsibilities taken on following Theo Bergman's departure and the increased complexity of the business.

	2016 £'000	2017 £'000
Robert Watson	426	468
Philip Heffer	328	361
Nigel Majewski	328	351

There are no changes in benefits, pensions and Non-Executive Director fees which will be operated in line with the approved policy.

Annual bonus

The maximum annual bonus in 2017 will be 125% of salary for Robert Watson, Philip Heffer and Nigel Majewski. 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.

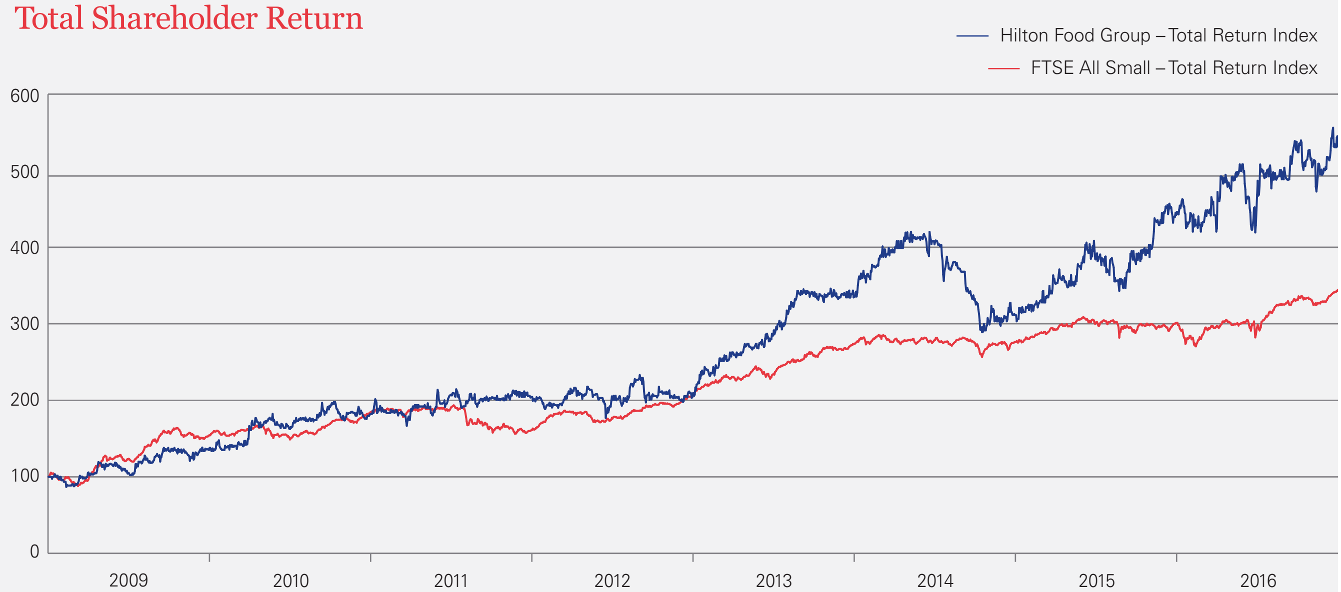
2017 long term incentive awards

The Committee will make a decision on whether to make a 2017 grant of nil cost award, their timing and the EPS targets to be set 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 eight years 2009 to 2016. 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.

Total Shareholder Return



Chief Executive Officer remuneration eight year trend

	2009	2010	2011	2012	2013	2014	2015	2016
Total remuneration (£'000)	584	644	730	593	610	626	784	1,173
Annual bonus (as a percentage of the maximum)	85%	63%	53%	10%	42%	32%	60%	69%
Long term incentive vesting (as a percentage of the maximum)	n/a	100%	100%	100%	n/a	0%	0%	60%

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

2016 percentage increase over 2015	CEO	Company average
Salary	10.1%	4%
Benefits	6.4%	n/a
Annual bonus	25.9%	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 4%, 0% and 9% respectively.

Relative importance of spend on pay

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

	2016 £'000	2015 £'000	% change
Staff costs (note 8 to the financial statements)	83,423	73,639	13%
Dividends payable	12,580	10,663	18%

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

Christine Cross
Chair of the Remuneration Committee
29 March 2017

Statements of Directors' responsibilities

Directors' responsibilities in respect 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 Group and the Company 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 and the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and 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 current Directors whose names and functions are set out on pages 28 and 29, confirm that to the best of their knowledge and belief:

- the Group and parent company financial statements, which have been prepared in accordance with applicable 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 29 March 2017 and is signed on its behalf by:

Robert Watson OBE
Chief Executive

Nigel Majewski
Chief Financial Officer

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 1 January 2017 and of the group's profit and the group's and the 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

The financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), comprise:

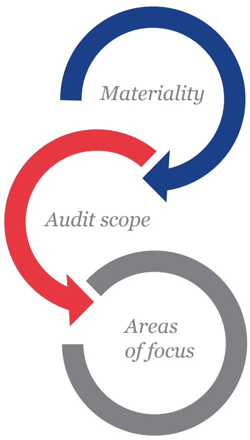
- the consolidated and company balance sheets as at 1 January 2017;
- the consolidated income statement and the consolidated statement of comprehensive income for the period then ended;
- the consolidated and company cash flow statements for the period then ended;
- the consolidated and company statements 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.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is 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, and applicable law.

Our audit approach

Overview



Materiality
Overall group materiality: £1,660,000 which represents 5% of profit before tax.

Audit scope
The group comprises a holding company, seven trading subsidiaries, four intermediary holding companies and two dormant companies. All of these components were subject to audits of their complete financial information.

The group also holds a 50% investment in an Australian joint venture. Specific audit procedures on the transactions and balances of the joint venture were carried out.

Area of focus
Customer supply arrangements.

The scope of our audit and our area 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 risk of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, is identified as an area of focus in the table on page 60. We have also set out how we tailored our audit to address this specific area 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.

Independent auditors' report continued

to the members of Hilton Food Group plc

Area of focus	How our audit addressed the 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. Significant 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.	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 the directors and inspected minutes of board discussions and determined, based on that evidence and the fact that we did not identify any omitted agreements through our audit procedures in other areas, 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 we determined that 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 thirteen subsidiary undertakings:

- seven 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 and two dormant companies, principally located in the United Kingdom with the non-dormant companies all requiring statutory audits.

All of these entities are audited by PwC network firms with the exception of the subsidiary located in Netherlands.

In addition to these thirteen entities the group has a 50% interest in a joint venture company located in Australia. As the joint venture was material to the group, the group engagement team carried out specified procedures on the transactions and balances.

The key procedures we adopted in respect of working with all 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 that the component financial information was properly prepared in accordance with IFRSs as adopted by the European Union.

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 on the individual financial statement line items and disclosures and in evaluating 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	£1,660,000 (2015: £1,419,000).
How we determined it	5% of profit before tax.
Rationale for benchmark applied	Given that the group's businesses are profit orientated and the directors use profit based measures to assess the performance of the group, we believe that profit before tax provides us with a consistent year-on-year basis for determining materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £100,000 (2015: £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.

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the directors' statement, the directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. 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 and compliance with applicable requirements

Companies Act 2006 reporting

In our opinion, based on the work undertaken in the course of the audit:

- 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 Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the group, the company and their environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

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.
- the statement given by the directors on page 58, in accordance with provision C.1.1 of the UK Corporate Governance Code (the "Code"), 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 position and 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.
- the section of the Annual Report on page 42, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

  We have no exceptions to report.

Independent auditors' report continued

to the members of Hilton Food Group plc

The Directors' assessment of the prospects of the group and of the principal risks that would threaten the solvency or liquidity of the group

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:

- the Directors' confirmation on page 21 of the Annual Report, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity.

  We have nothing material to add or to draw attention to.

- the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.

  We have nothing material to add or to draw attention to.

- the Directors' explanation on page 21 of the Annual Report, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

  We have nothing material to add or to draw attention to.

Under the Listing Rules we are required to review the directors' statement that they have carried out a robust assessment of the principal risks facing the group and the directors' statement in relation to the longer-term viability of the group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

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. We have no exceptions to report arising from this responsibility.

Corporate governance statement

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to ten further provisions of the 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 Statement of Directors' Responsibilities set out on page 58, 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 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 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. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Kevin MacAllister (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Belfast
29 March 2017

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

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

Financial statements

Consolidated income statement

	Notes	2016 52 weeks £'000	2015 53 weeks £'000
Continuing operations			
Revenue	5	1,234,495	1,094,822
Cost of sales		(1,083,667)	(957,067)
Gross profit		150,828	137,755
Distribution costs		(11,089)	(10,091)
Administrative expenses		(108,471)	(99,887)
Share of profit in joint venture		3,056	1,222
Operating profit		34,324	28,999
Finance income	9	87	97
Finance costs	9	(1,202)	(1,148)
Finance costs – net	9	(1,115)	(1,051)
Profit before income tax		33,209	27,948
Income tax expense	10	(6,553)	(6,489)
Profit for the year		26,656	21,459
Attributable to:			
Owners of the parent		24,649	20,017
Non-controlling interests		2,007	1,442
		26,656	21,459
Earnings per share attributable to owners of the parent during the year			
Basic (pence)	11	33.7	27.5
Diluted (pence)	11	33.2	27.2

Consolidated statement of comprehensive income

	2016 52 weeks £'000	2015 53 weeks £'000
Profit for the year	26,656	21,459
Other comprehensive income		
Currency translation differences	8,266	(2,739)
Other comprehensive income/(expense) for the year net of tax	8,266	(2,739)
Total comprehensive income for the year	34,922	18,720
Total comprehensive income attributable to:		
Owners of the parent	32,104	17,552
Non-controlling interests	2,818	1,168
	34,922	18,720

The notes on pages 70 to 90 are an integral part of these consolidated financial statements.

Consolidated balance sheet

		Group		Company	
	Notes	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Assets					
Non-current assets					
Property, plant and equipment	13	70,396	67,230	–	–
Intangible assets	14	8,584	10,073	–	–
Investments	15	4,847	2,396	102,985	102,985
Deferred income tax assets	21	1,058	1,000	–	–
		84,885	80,699	102,985	102,985
Current assets					
Inventories	16	24,382	18,272	–	–
Trade and other receivables	17	118,608	96,095	41	470
Current income tax assets		33	–	–	11
Cash and cash equivalents	18	59,304	52,806	208	150
		202,327	167,173	249	631
Total assets		287,212	247,872	103,234	103,616
Equity					
Equity attributable to owners of the parent					
Ordinary shares	22	7,355	7,286	7,355	7,286
Share premium		7,273	8,191	7,273	8,191
Employee share schemes reserve		5,250	901	–	–
Foreign currency translation reserve		2,966	(4,489)	–	–
Retained earnings		96,419	82,829	15,685	17,120
		119,263	94,718	30,313	32,597
Reverse acquisition reserve		(31,700)	(31,700)	–	–
Merger reserve		919	919	71,019	71,019
		88,482	63,937	101,332	103,616
Non-controlling interests		6,613	4,938	–	–
Total equity		95,095	68,875	101,332	103,616
Liabilities					
Non-current liabilities					
Borrowings	19	17,409	28,405	–	–
Deferred income tax liabilities	21	1,505	1,654	–	–
		18,914	30,059	–	–
Current liabilities					
Borrowings	19	9,567	11,728	–	–
Trade and other payables	20	163,636	136,537	1,902	–
Current income tax liabilities		–	673	–	–
		173,203	148,938	1,902	–
Total liabilities		192,117	178,997	1,902	–
Total equity and liabilities		287,212	247,872	103,234	103,616

The notes on pages 70 to 90 are an integral part of these consolidated financial statements.

The financial statements on pages 66 to 90 were approved by the Board on 29 March 2017 and were signed on its behalf by:

R. Watson OBE
Director

N. Majewski
Director

Hilton Food Group plc – Registered number: 06165540

Consolidated statement of changes in equity

		Attributable to owners of the parent									
Group	Notes	Share capital £'000	Share premium £'000	Employee share schemes reserve £'000	Foreign currency translation reserve £'000	Retained earnings £'000	Reverse acquisition reserve £'000	Merger reserve £'000	Total £'000	Non-controlling interests £'000	Total equity £'000
Balance at 29 December 2014		7,259	7,235	441	(2,024)	72,717	(31,700)	919	54,847	4,786	59,633
Profit for the year		–	–	–	–	20,017	–	–	20,017	1,442	21,459
Other comprehensive income											
Currency translation differences		–	–	–	(2,465)	–	–	–	(2,465)	(274)	(2,739)
Total comprehensive income for the year		–	–	–	(2,465)	20,017	–	–	17,552	1,168	18,720
Issue of new shares		27	516	–	–	–	–	–	543	–	543
Adjustment in respect of employee share schemes		–	408	342	–	–	–	–	750	–	750
Tax on employee share schemes		–	32	118	–	–	–	–	150	–	150
Dividends paid	12	–	–	–	–	(9,905)	–	–	(9,905)	(1,016)	(10,921)
Total transactions with owners		27	956	460	–	(9,905)	–	–	(8,462)	(1,016)	(9,478)
Balance at 3 January 2016		7,286	8,191	901	(4,489)	82,829	(31,700)	919	63,937	4,938	68,875
Profit for the year		–	–	–	–	24,649	–	–	24,649	2,007	26,656
Other comprehensive income											
Currency translation differences		–	–	–	7,455	–	–	–	7,455	811	8,266
Total comprehensive income for the year		–	–	–	7,455	24,649	–	–	32,104	2,818	34,922
Issue of new shares		69	1,423	–	–	–	–	–	1,492	–	1,492
Adjustment in respect of employee share schemes		–	(1,949)	3,823	–	–	–	–	1,874	–	1,874
Tax on employee share schemes		–	(392)	526	–	–	–	–	134	–	134
Dividends paid	12	–	–	–	–	(11,059)	–	–	(11,059)	(1,143)	(12,202)
Total transactions with owners		69	(918)	4,349	–	(11,059)	–	–	(7,559)	(1,143)	(8,702)
Balance at 1 January 2017		7,355	7,273	5,250	2,966	96,419	(31,700)	919	88,482	6,613	95,095
Company											
Balance at 29 December 2014		7,259	7,235	–	–	13,470	–	71,019	98,983		
Profit for the year		–	–	–	–	13,555	–	–	13,555		
Total comprehensive income for the year		–	–	–	–	13,555	–	–	13,555		
Issue of new shares		27	516	–	–	–	–	–	543		
Adjustment in respect of employee share schemes		–	408	–	–	–	–	–	408		
Tax on employee share schemes		–	32	–	–	–	–	–	32		
Dividends paid	12	–	–	–	–	(9,905)	–	–	(9,905)		
Total transactions with owners		27	956	–	–	(9,905)	–	–	(8,922)		
Balance at 3 January 2016		7,286	8,191	–	–	17,120	–	71,019	103,616		
Profit for the year		–	–	–	–	9,624	–	–	9,624		
Total comprehensive income for the year		–	–	–	–	9,624	–	–	9,624		
Issue of new shares		69	1,423	–	–	–	–	–	1,492		
Adjustment in respect of employee share schemes		–	(1,949)	–	–	–	–	–	(1,949)		
Tax on employee share schemes		–	(392)	–	–	–	–	–	(392)		
Dividends paid	12	–	–	–	–	(11,059)	–	–	(11,059)		
Total transactions with owners		69	(918)	–	–	(11,059)	–	–	(11,908)		
Balance at 1 January 2017		7,355	7,273	–	–	15,685	–	71,019	101,332		

The notes on pages 70 to 90 are an integral part of these consolidated financial statements.

Consolidated cash flow statement

	Notes	Group 2016 52 weeks £'000	Group 2015 53 weeks £'000	Company 2016 52 weeks £'000	Company 2015 53 weeks £'000
Cash flows from operating activities					
Cash generated from operations	24	50,066	50,960	–	–
Interest paid		(1,202)	(1,148)	–	(72)
Income tax (paid)/received		(7,460)	(4,553)	–	54
Net cash generated from/(used in) operating activities		41,404	45,259	–	(18)
Cash flows from investing activities					
Purchases of property, plant and equipment		(15,744)	(13,676)	–	–
Proceeds from sale of property, plant and equipment		430	77	–	–
Purchases of intangible assets		(647)	(54)	–	–
Interest received		87	97	–	–
Dividends received		–	–	9,625	13,600
Dividends received from joint venture		1,184	–	–	–
Net cash (used in)/generated from investing activities		(14,690)	(13,556)	9,625	13,600
Cash flows from financing activities					
Proceeds from borrowings		–	3,336	–	–
Repayments of borrowings		(14,870)	(6,157)	–	–
Repayment of inter-company loan		–	–	–	(4,403)
Issue of ordinary shares		1,492	543	1,492	543
Dividends paid to owners of the parent		(11,059)	(9,905)	(11,059)	(9,905)
Dividends paid to non-controlling interests		(1,143)	(1,016)	–	–
Net cash used in financing activities		(25,580)	(13,199)	(9,567)	(13,765)
Net increase/(decrease) in cash and cash equivalents		1,134	18,504	58	(183)
Cash and cash equivalents at beginning of the year		52,806	35,586	150	333
Exchange gains/(losses) on cash and cash equivalents		5,364	(1,284)	–	–
Cash and cash equivalents at end of the year	18	59,304	52,806	208	150

The notes on pages 70 to 90 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 fourteen 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 1 January 2017 (prior financial year 53 weeks to 3 January 2016).

These consolidated financial statements were approved for issue on 29 March 2017.

The Company has taken advantage of the exemption in Section 408 Companies Act 2006 not to publish its individual income statement, statement of comprehensive income and related notes. Profit for the year dealt with in the income statement of Hilton Food Group plc amounted to £9,624,000 (2015: £13,555,000).

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 under the historical cost convention and 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. The reasons why the Directors consider this basis to be appropriate are set out in the Performance and financial review on page 21.

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 1 January 2017. 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 2016

Amendment to IAS 1 (Presentation of financial statements) on disclosure initiative (1 January 2016)

Amendment to IAS 16 (Property, plant and equipment) and IAS 41 (Biological assets) regarding bearer plants (1 January 2016)

Amendment to IAS 16 (Property, plant and equipment) and IAS 38 (Intangible assets) on clarification of acceptable methods of depreciation and amortisation (1 January 2016)

Amendment to IAS 27 (Separate financial statements) (1 January 2016)

Amendment to IFRS 11 (Joint arrangements) on acquisition of an interest in a joint operation (1 January 2016)

Amendment to IFRS 10 (Consolidated financial statements) and IAS 28 (Investments in associates) on investment entities applying the consolidation exemption (1 January 2016)

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

Amendment to IFRS 10 (Consolidated financial statements) and IAS 28 (Investments in associates) on sale or contribution of assets (to be determined) (*)

Amendment to IAS 7 (Statement of cash flows) on disclosure initiative (1 January 2017) (*)

Amendment to IAS 12 (Income taxes) on recognition of deferred tax assets for unrealised losses (1 January 2017) (*)

IFRS 9 (Financial instruments) (1 January 2018)

Amendment to IFRS 9 (Financial instruments) on general hedge accounting (1 January 2018) (*)

Amendment to IFRS 4 'Insurance contracts' regarding the implementation of IFRS 9, 'Financial instruments' (1 January 2018) (*)

IFRS 14 (Regulatory deferral accounts) (1 January 2016) (*)

IFRS 15 (Revenue from customers with contracts) (1 January 2018)

Amendment to IAS 15 (Revenue from customers with contracts) (1 January 2018)

IFRS 16 (Leases) (1 January 2019) (*)

IFRIC 22 (Foreign currency transactions and advance consideration) (1 January 2018) (*)

IAS 40 (Investment property) on transfers of investment property (1 January 2018) (*)

Amendment to IFRS 2 (Share-based payment) on clarifying share-based payment transactions (1 January 2018) (*)

(*) Not yet endorsed by the EU

Other than IFRS 16 none of these IFRSs, IFRIC interpretations or amendments are expected to have a material impact on the Group or the Company. Under IFRS 16 the Group expects a number of operating leases to become "on-balance sheet", with the biggest impact being on the Group's operating leases for property.

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.

Notes to the financial statements continued

2 Summary of significant accounting policies continued

Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Sterling, which is the Company's functional and the Group's presentation currency.

(b) Transactions and balances

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

(c) Group companies

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

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting currency translation differences are recognised in other comprehensive income and disclosed as a separate component of equity in a foreign currency translation reserve.

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

Property, plant and equipment

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

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

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.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) despite having retained some significant risks and rewards of ownership, control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

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

Inventories

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

Notes to the financial statements continued

2 Summary of significant accounting policies continued

Trade and other receivables

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

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

Cash and cash equivalents

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

Share capital and reserves

Ordinary shares are classified as equity.

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

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

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

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

Trade and other payables

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

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

Borrowings

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

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

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

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

Leases

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

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

Current and deferred income tax

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

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

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

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

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

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

Pensions and other post-employment benefits

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

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

Share-based payments

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

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.

Notes to the financial statements continued

3 Financial risk management continued

(iv) Sensitivity analysis

	Income statement £'000	2016 Equity £'000	Income statement £'000	2015 Equity £'000
Group				
Annual effect of a change in Group-wide interest rates by 0.5%	115	115	146	146
	–115	–115	–146	–146
Annual effect of a change in exchange rates to the GBP £ by 10%	2,188	7,658	1,871	6,317
	–1,790	–6,266	–1,531	–5,168

(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 £171.9m (2015: £143.7m) as stated in note 27.

(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 £59.3m (2015: £52.8m) 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:

			2016			2015
	Borrowings £'000	Finance leases £'000	Trade and other payables £'000	Borrowings £'000	Finance leases £'000	Trade and other payables £'000
Less than one year	11,433	377	159,889	12,155	317	132,970
Between one and two years	11,251	390	–	11,948	326	–
Between two and five years	2,482	1,213	–	15,024	1,025	–
Over five years	–	1,069	–	–	1,286	–

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 nil as at the year end (2015: 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.

Some of Hilton's long term supply contracts are on a cost plus basis. IFRIC 4 requires that such arrangements are reviewed to determine whether they contain a lease. These cost plus agreements typically contain benchmarking clauses which allow our customers to obtain competitive pricing or to source its supply from a competitor. Additionally product inputs and packaging are traded in active markets which are monitored by our customers and furthermore product selling prices are updated on a frequent basis thereby resulting in pricing that is, in substance, a market price. On this basis the criteria in IFRIC 4 for determining whether these agreements contain a lease are not met.

During 2016 and 2015 there were no critical accounting estimates or other judgements in relation to the application of the Group's accounting policies.

5 Segment information

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

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

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

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:

				2016				2015
	Western Europe £'000	Central Europe £'000	Central costs and other £'000	Total £'000	Western Europe £'000	Central Europe £'000	Central costs and other £'000	Total £'000
Total segment revenue	1,175,989	87,023	–	1,263,012	1,020,844	74,165	–	1,095,009
Inter–segment revenue	(28,512)	(5)	–	(28,517)	(187)	–	–	(187)
Revenue from external customers	1,147,477	87,018	–	1,234,495	1,020,657	74,165	–	1,094,822
Operating profit/(loss)/ segment result	35,899	2,129	(3,704)	34,324	32,107	2,255	(5,363)	28,999
Finance income	18	69	–	87	20	76	1	97
Finance costs	(956)	–	(246)	(1,202)	(1,066)	–	(82)	(1,148)
Income tax (expense)/credit	(7,215)	(427)	1,089	(6,553)	(6,959)	(455)	925	(6,489)
Profit/(loss) for the year	27,746	1,771	(2,861)	26,656	24,102	1,876	(4,519)	21,459
Depreciation and amortisation	18,581	999	126	19,706	18,205	1,036	122	19,363
Additions to non-current assets	14,892	1,294	205	16,391	12,905	547	278	13,730
Segment assets	259,355	18,477	8,289	286,121	224,739	17,836	4,297	246,872
Current income tax assets				33				–
Deferred income tax assets				1,058				1,000
Total assets				287,212				247,872
Segment liabilities	179,658	8,992	1,962	190,612	165,283	9,411	1,976	176,670
Current income tax liabilities				–				673
Deferred income tax liabilities				1,505				1,654
Total liabilities				192,117				178,997

Notes to the financial statements continued

5 Segment information continued

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

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

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

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

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

	Revenues from external customers		Non-current assets excluding deferred tax assets	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Analysis by geographical area				
United Kingdom – country of domicile	488,106	441,673	43,020	39,784
Netherlands	294,308	257,398	8,183	9,445
Sweden	208,974	182,621	15,715	13,752
Republic of Ireland	64,452	55,880	5,666	3,999
Denmark	91,637	83,174	7,594	9,757
Central Europe	87,018	74,076	3,649	2,962
	1,234,495	1,094,822	83,827	79,699
Analysis by principal customer				
Customer 1	570,062	513,401		
Customer 2	317,740	284,560		
Customer 3	225,657	197,608		
Customer 4	89,936	81,634		
Other	31,100	17,619		
	1,234,495	1,094,822		

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	2016 £'000	2015 £'000
Fees payable to the Company's auditors for the audit of the parent company and consolidated financial statements	127	121
Fees payable to the Company's auditors and its associates for other services:		
– The audit of the Company's subsidiaries pursuant to legislation	141	125
– Other services pursuant to legislation	48	47
– Services relating to taxation	68	104
– All other services	4	3
Total fees payable to the Company's auditors and its associates	388	400

Fees payable to other auditors in respect of services provided to subsidiary undertakings	53	51

7 Expenses by nature

Group	2016 £'000	2015 £'000
Changes in inventories of finished goods and goods for resale	(1,738)	1,009
Raw materials and consumables used	1,012,062	893,813
Employee benefit expense (note 8)	83,423	73,639
Depreciation and amortisation – owned assets	19,537	19,213
Depreciation and amortisation – leased assets	169	150
Repairs and maintenance expenditure on property, plant and equipment	11,421	11,178
Trade receivables – impairment	2	70
Hire of plant and machinery	530	888
Transportation expenses	11,012	10,052
Operating lease payments	7,275	6,756
Foreign exchange losses/(gains)	206	(217)
Other expenses	59,328	50,494
Total cost of sales, distribution costs and administrative expenses	1,203,227	1,067,045

8 Employee benefit expense

Group	2016 £'000	2015 £'000
Staff costs during the year		
Wages and salaries	69,388	62,383
Social security costs	9,170	7,797
Share options granted to Directors and employees	1,874	750
Other pension costs	2,991	2,709
	83,423	73,639

Group	2016 Number	2015 Number
Average number of persons employed (including Executive Directors) during the year by activity		
Production	2,305	2,325
Administration	643	587
	2,948	2,912

Group	2016 £'000	2015 £'000
Key management compensation (including Directors)		
Salaries and short term employee benefits, including termination benefits	4,336	3,396
Post-employment benefits	257	325
Share-based payments	1,312	525
	5,905	4,246

Group	2016 £'000	2015 £'000
Directors' emoluments		
Aggregate emoluments	3,168	2,640
Company contribution to money purchase pension scheme	192	259
	3,360	2,899

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 (2015: £nil).

Notes to the financial statements continued

9 Finance income and costs

Group	2016 £'000	2015 £'000
Finance income		
Interest income on short term bank deposits	82	90
Other interest income	5	7
Finance income	87	97
Finance costs		
Bank borrowings	(915)	(920)
Finance leases	(162)	(161)
Other interest expense	(125)	(67)
Finance costs	(1,202)	(1,148)
Finance costs – net	(1,115)	(1,051)

10 Income tax expense

Group	2016 £'000	2015 £'000
Current income tax		
Current tax on profits for the year	7,091	6,787
Adjustments to tax in respect of previous years	(91)	(18)
Total current tax	7,000	6,769
Deferred income tax		
Origination and reversal of temporary differences	(56)	(389)
Adjustments to tax in respect of previous years	(391)	109
Total deferred tax	(447)	(280)
Income tax expense	6,553	6,489

Deferred tax credited directly to equity during the year in respect of employee share schemes amounted to £111,000 (2015: £118,000).

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 20% (2015: 20.25%) applied to profits of the consolidated entities as follows:

	2016 £'000	2015 £'000
Profit before income tax	33,209	27,948
Tax calculated at the standard rate of UK Corporation Tax 20% (2015: 20.25%)	6,642	5,659
Expenses not deductible for tax purposes	317	618
Joint venture income not taxable	(611)	(247)
Adjustments to tax in respect of previous years	(482)	91
Profits taxed at rates other than 20% (2015: 20.25%)	495	375
Other	192	(7)
Income tax expense	6,553	6,489

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

11 Earnings per share

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

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

			2016		2015
Group		Basic	Diluted	Basic	Diluted
Profit attributable to owners of the parent	(£'000)	24,649	24,649	20,017	20,017
Weighted average number of ordinary shares in issue	(thousands)	73,247	73,247	72,748	72,748
Adjustment for share options	(thousands)	–	945	–	970
Adjusted weighted average number of ordinary shares	(thousands)	73,247	74,192	72,748	73,718
Basic and diluted earnings per share	(pence)	33.7	33.2	27.5	27.2

12 Dividends

Group and Company	2016 £'000	2015 £'000
Second interim dividend in respect of 2015 paid 9.2p per ordinary share	6,725	–
Final dividend in respect of 2015 paid 1.3p per ordinary share (2015: 9.5p)	951	6,919
Interim dividend in respect of 2016 paid 4.6p per ordinary share (2015: 4.1p)	3,383	2,986
Total dividends paid	11,059	9,905

The Directors propose a final dividend of 12.5p per share payable on 30 June 2017 to shareholders who are on the register at 2 June 2017. This dividend totalling £9.2m has not been recognised as a liability in these consolidated financial statements.

Notes to the financial statements continued

13 Property, plant and equipment

Group	Land and buildings (including leasehold improvements) £'000	Plant and machinery £'000	Fixtures and fittings £'000	Motor vehicles £'000	Total £'000
Cost					
At 29 December 2014	37,675	160,215	8,554	297	206,741
Exchange adjustments	(724)	(5,167)	(250)	(1)	(6,142)
Additions	3,521	9,391	755	9	13,676
Reclassification	–	(235)	53	–	(182)
Disposals	(1,464)	(561)	(88)	(7)	(2,120)
At 3 January 2016	39,008	163,643	9,024	298	211,973
Accumulated depreciation					
At 29 December 2014	17,267	109,911	6,802	119	134,099
Exchange adjustments	(460)	(3,573)	(188)	–	(4,221)
Charge for the year	3,737	12,219	860	68	16,884
Reclassification	–	(72)	21	–	(51)
Disposals	(1,464)	(406)	(91)	(7)	(1,968)
At 3 January 2016	19,080	118,079	7,404	180	144,743
Net book amount					
At 29 December 2014	20,408	50,304	1,752	178	72,642
At 3 January 2016	19,928	45,564	1,620	118	67,230
Cost					
At 4 January 2016	39,008	163,643	9,024	298	211,973
Exchange adjustments	1,909	16,426	931	5	19,271
Additions	344	14,480	714	206	15,744
Reclassification (note 14)	103	(267)	1,636	–	1,472
Disposals	(1,464)	(1,522)	(257)	(155)	(3,398)
At 1 January 2017	39,900	192,760	12,048	354	245,062
Accumulated depreciation					
At 4 January 2016	19,080	118,079	7,404	180	144,743
Exchange adjustments	1,405	12,237	773	1	14,416
Charge for the year	2,713	13,666	795	84	17,258
Reclassification (note 14)	–	–	1,508	–	1,508
Disposals	(1,464)	(1,426)	(256)	(113)	(3,259)
At 1 January 2017	21,734	142,556	10,224	152	174,666
Net book amount					
At 1 January 2017	18,166	50,204	1,824	202	70,396

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 £1,980,000 (2015: £1,654,000).

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

	2016 £'000	2015 £'000
Cost – capitalised finance leases	3,487	3,011
Accumulated depreciation	(2,254)	(1,794)
Net book amount	1,233	1,217

Included in assets held under finance leases are land and buildings with a net book amount of £1,233,000 (2015: £1,217,000).

14 Intangible assets

Group	Product licences £'000	Computer software £'000	Goodwill £'000	Total £'000
Cost				
At 29 December 2014	19,305	4,116	836	24,257
Exchange adjustments	(560)	(137)	–	(697)
Additions	–	54	–	54
Reclassifications	–	182	–	182
Disposals	–	(123)	–	(123)
At 3 January 2016	18,745	4,092	836	23,673
Accumulated amortisation				
At 29 December 2014	8,156	3,554	–	11,710
Exchange adjustments	(408)	(109)	–	(517)
Charge for the year	2,142	337	–	2,479
Reclassifications	–	51	–	51
Disposals	–	(123)	–	(123)
At 3 January 2016	9,890	3,710	–	13,600
Net book amount				
At 29 December 2014	11,149	562	836	12,547
At 3 January 2016	8,855	382	836	10,073
Cost				
At 4 January 2016	18,745	4,092	836	23,673
Exchange adjustments	1,756	(1,071)	–	685
Additions	–	647	–	647
Reclassifications (note 13)	–	(1,472)	–	(1,472)
Disposals	(216)	(1)	–	(217)
At 1 January 2017	20,285	2,195	836	23,316
Accumulated amortisation				
At 4 January 2016	9,890	3,710	–	13,600
Exchange adjustments	1,288	(1,095)	–	193
Charge for the year	2,241	207	–	2,448
Reclassifications (note 13)	–	(1,508)	–	(1,508)
Disposals	–	(1)	–	(1)
At 1 January 2017	13,419	1,313	–	14,732
Net book amount				
At 1 January 2017	6,866	882	836	8,584

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

Notes to the financial statements continued

15 Investments

Investments in subsidiaries

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

Company	2016 £'000	2015 £'000
At 4 January 2016 and 1 January 2017	102,985	102,985

The subsidiary undertakings of the Group are:

Subsidiary undertakings	Registered address	Country	Share class	(%) Proportion of shares held by Parent	Group
Hilton Foods Asia Pacific Limited	2-8 Interchange Latham Road, Huntingdon PE29 6YE	UK	£1 Ordinary	–	100
Hilton Food Solutions Limited	2-8 Interchange Latham Road, Huntingdon PE29 6YE	UK	£1 Ordinary	–	55
Hilton Foods Limited	PwC Waterfront Plaza, 8 Laganbank Road, Belfast BT1 3LR, Northern Ireland	UK	£1 Ordinary	100	–
Hilton Foods UK Limited	PwC Waterfront Plaza, 8 Laganbank Road, Belfast BT1 3LR, Northern Ireland	UK	£1 Ordinary	–	100
Hilton Meats Holland Limited	PwC Waterfront Plaza, 8 Laganbank Road, Belfast BT1 3LR, Northern Ireland	UK	£1 Ordinary	–	80
Hilton Food Group (Europe) Limited	PwC Waterfront Plaza, 8 Laganbank Road, Belfast BT1 3LR, Northern Ireland	UK	£1 Ordinary	–	100
Hilton Food.com Limited	PwC Waterfront Plaza, 8 Laganbank Road, Belfast BT1 3LR, Northern Ireland	UK	£1 Ordinary	–	100
Hilton Meats Zaandam BV	Grote Tocht 31, 1507 CG Zaandam	Netherlands	€1,000 Ordinary	–	80
Hilton Foods (Ireland) Limited	Termonfeckin Road, Drogheda, Co Louth	Ireland	€1 Ordinary	–	100
HFG Sverige AB	Saltangsvagen 53, 721 32 Vasteras	Sweden	SEK 2,500 Ordinary	–	100
Hilton Foods Danmark A/S	Brunagervej 4, Kolt, 8361 Hasselager	Denmark	DKK 100 Ordinary	–	100
Hilton Foods Ltd Sp z o.o.	Ul Strefowa 31, 43-100 Tychy	Poland	PLN 500 Ordinary	–	100
Hilton Foods Australia Pty Limited	3606/35 Queensbridge Street, Southbank, VIC 3006	Australia	AUD 1 Ordinary	–	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	2016 £'000	2015 £'000
At the beginning of the year	2,396	1,234
Profit for the period	3,056	1,222
Dividends received	(1,184)	–
Effect of movements in foreign exchange	579	(60)
At the end of the year	4,847	2,396

Where relevant, management accounts for the joint venture have been used to include the results up to 1 January 2017. The Group's share of the net assets, income and expenses of the joint venture are detailed below:

	2016 £'000	2015 £'000
Net assets	4,847	2,396
Income	4,366	1,711
Expenses	–	(1)
Taxation	(1,310)	(488)
Profit after tax	3,056	1,222

The joint venture of the Group is:

Joint venture	Registered address	Country	Share class	(%) Proportion of ordinary shares held by Parent	Group
Woolworths Meat Co. Pty Ltd	1 Woolworths Way, Bella Vista, NSW 2153	Australia	AUD 1 Ordinary	–	50

16 Inventories

Group	2016 £'000	2015 £'000
Raw materials and consumables	19,563	15,192
Finished goods and goods for resale	4,819	3,080
	24,382	18,272

The cost of inventories recognised as an expense and included in cost of sales amounted to £1,010,324,000 (2015: £894,822,000). The Group charged £17,000 in respect of inventory write-downs (2015: £289,000). The amount charged has been included in cost of sales in the income statement.

17 Trade and other receivables

	Group		Company	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Trade receivables	106,271	85,869	–	–
Less: provision for impairment of trade receivables	(183)	(165)	–	–
Trade receivables – net	106,088	85,704	–	–
Amounts owed by Group undertakings	–	–	41	470
Amounts owed by related parties (see note 26)	69	605	–	–
Other receivables	6,403	4,628	–	–
Prepayments	6,048	5,158	–	–
	118,608	96,095	41	470

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

	Group		Company	
Currency	2016 £'000	2015 £'000	2016 £'000	2015 £'000
UK Pound	31,192	16,262	41	470
Euro	51,889	46,866	–	–
Swedish Krona	21,863	19,033	–	–
Danish Krone	10,636	9,464	–	–
Polish Zloty	3,028	3,865	–	–
Australian Dollar	–	605	–	–
	118,608	96,095	41	470

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 £183,000 (2015: £165,000). 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	2016 £'000	2015 £'000
At the beginning of the year	165	213
Provision for receivables impairment	63	136
Receivables written off during the year as uncollectable	(65)	(181)
Exchange differences	20	(3)
At the end of year	183	165

Notes to the financial statements continued

18 Cash and cash equivalents

	Group		Company	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Cash at bank and on hand	59,304	52,806	208	150

19 Borrowings

Group	2016 £'000	2015 £'000
Current		
Bank borrowings	9,348	11,562
Finance lease liabilities	219	166
	9,567	11,728
Non-current		
Bank borrowings	15,319	26,428
Finance lease liabilities	2,090	1,977
	17,409	28,405
Total borrowings	26,976	40,133

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	2016 £'000	2015 £'000
UK Pound	15,500	25,080
Euro	2,309	2,144
Swedish Krona	9,167	12,909
	26,976	40,133

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 2.5%. 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 £24,667,000 (2015: £37,990,000) 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 £99.2m (2015: £28.3m) with the loan facilities expiring in 2022.

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

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

	Minimum lease payments		Present value	
Group	2016 £'000	2015 £'000	2016 £'000	2015 £'000
No later than one year	377	317	219	166
Later than one year and no later than five years	1,603	1,351	1,139	1,977
Later than five years	1,069	1,282	951	–
	3,049	2,950	2,309	2,143
Future finance charges on finance leases	(740)	(807)	–	–
Present value of finance lease liabilities	2,309	2,143	2,309	2,143

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 £2,956,000 (2015: £2,843,000). The fair values are based on cash flows discounted using the European Central Bank benchmark main refinancing operations fixed interest rate of 0% (2015: 0.05%).

20 Trade and other payables

	Group		Company	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Trade payables	140,695	114,072	–	–
Amounts owed to Group undertakings	–	–	1,902	–
Social security and other taxes	3,747	3,567	–	–
Accruals and deferred income	19,194	18,898	–	–
	163,636	136,537	1,902	–

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 29 December 2014	(1,391)	287	(1,104)
Exchange differences	52	–	52
Income statement credit	178	102	280
Adjustment in respect of employee share schemes	–	118	118
At 3 January 2016	(1,161)	507	(654)
Exchange differences	(129)	–	(129)
Income statement credit/(charge)	470	(23)	447
Adjustment in respect of employee share schemes	–	(111)	(111)
At 1 January 2017	(820)	373	(447)

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

Group	2016 £'000	2015 £'000
Deferred tax liabilities	(1,505)	(1,654)
Deferred tax assets	1,058	1,000
	(447)	(654)

Other timing differences principally relate to share-based payments. The deferred income tax liability above includes £130,000 (2015: £150,000) which is estimated to reverse within 12 months. The deferred income tax asset above is not expected to reverse within 12 months.

22 Ordinary shares

		Group		Company	
	Number of shares (thousands)	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Issued and fully paid ordinary shares of 10p each					
At 4 January 2016	72,863	7,286	7,259	7,286	7,259
Issue of new shares relating to employee incentive schemes	689	69	27	69	27
At 1 January 2017	73,552	7,355	7,286	7,355	7,286

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

Notes to the financial statements continued

23 Share-based payment

Executive share option scheme

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

All employee sharesave scheme

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 10%-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%-18% per year. The options have a contractual option term of 10 years. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

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

	Executive share option		Sharesave		Long Term Incentive	
	Options ('000)	Exercise price (pence)	Options ('000)	Exercise price (pence)	Options ('000)	Exercise price (pence)
At 29 December 2014	1,170	216.56	431	463.54	2,389	–
Granted	–	–	348	420	577	–
Exercised	(274)	198.28	–	–	–	–
Lapsed	–	–	(191)	460.27	(1,278)	–
At 3 January 2016	896	222.16	588	438.83	1,688	–
Granted	–	–	176	496.25	541	–
Exercised	(689)	216.18	(1)	460.25	–	–
Lapsed	–	–	(99)	444.23	(679)	–
At 1 January 2017	207	242.02	664	470.90	1,550	–

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

				Number options	
Expiry date	Type of scheme	Status	Exercise price (pence)	2016 £'000	2015 £'000
October 2017	Sharesave	Not exercisable	460.25	231	254
December 2017	Sharesave	Not exercisable	480.00	9	14
December 2018	Sharesave	Not exercisable	420.00	264	320
December 2019	Sharesave	Not exercisable	496.25	160	–
May 2018	Executive share option	Exercisable	199.50	13	134
May 2019	Executive share option	Exercisable	174.75	3	212
May 2020	Executive share option	Exercisable	246.00	191	550
May 2023	Long Term Incentive Plan	Lapsed	nil cost	–	657
April 2024	Long Term Incentive Plan	Not exercisable	nil cost	448	457
April 2025	Long Term Incentive Plan	Not exercisable	nil cost	569	574
April 2026	Long Term Incentive Plan	Not exercisable	nil cost	533	–

The fair value of options granted during 2016 determined using the Black-Scholes valuation model ranged from 79p to 510p 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 of 0.74%. See note 8 for the total expense recognised in the income statement for share options granted to Directors and employees.

24 Cash generated from operations

Group	2016 £'000	2015 £'000
Profit before income tax	33,209	27,948
Finance costs – net	1,115	1,051
Operating profit	34,324	28,999
Adjustments for non-cash items:		
Share of post tax profits of joint venture	(3,056)	(1,222)
Depreciation of property, plant and equipment	17,258	16,884
Amortisation of intangible assets	2,448	2,479
Loss on disposal of non-current assets	(75)	75
Adjustment in respect of employee share schemes	1,874	750
Changes in working capital:		
Inventories	(4,250)	3,126
Trade and other receivables	(9,824)	16,283
Prepaid expenses	(889)	(744)
Trade and other payables	11,960	(15,150)
Accrued expenses	296	(520)
Cash generated from operations	50,066	50,960

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	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Property, plant and equipment	1,526	2,547	–	–

(b) Operating lease commitments

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

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

	Land and buildings		Plant and equipment	
Group	2016 £'000	2015 £'000	2016 £'000	2015 £'000
No later than one year	6,669	5,658	1,320	1,001
Later than one year and no later than five years	12,567	12,518	2,028	1,828
Later than five years expiring 2022 to 2027	14,428	15,718	18	45
	33,664	33,894	3,366	2,874

Notes to the financial statements continued

26 Related party transactions and ultimate controlling party

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

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

Group	2016 £'000	2015 £'000
Hilton Food Solutions Limited	5,564	–
Woolworths Limited and subsidiaries – recharge of joint venture costs	1,010	1,581

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

	Owed from related parties	
Group	2016 £'000	2015 £'000
Hilton Food Solutions Limited	978	–
Woolworths Limited and subsidiaries	69	605

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

Company	2016 £'000	2015 £'000
Hilton Foods Limited – dividend received	9,625	13,600
Hilton Foods Limited – interest expense	–	56
Hilton Foods UK Limited – payment for group relief	11	30

At the year end £1,902,000 was owed to Hilton Foods Limited (2015: £439,000 owed by Hilton Foods Limited) and £41,000 (2015: £30,000) 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:

	Loans and receivables	
Group	2016 £'000	2015 £'000
Assets as per balance sheet		
Trade and other receivables	112,560	90,937
Cash and cash equivalents	59,304	52,806
	171,864	143,743

	Other financial liabilities at amortised cost	
Group	2016 £'000	2015 £'000
Liabilities as per balance sheet		
Trade and other payables	159,889	132,970
Borrowings	26,976	40,133
	186,865	173,103

In addition to the above, amounts owed to the Company by Group undertakings of £41,000 (2015: £30,000) are classified as 'loans and receivables' and amounts owed by the Company to Group undertakings of £1,902,000 (2015: £439,000 owed to the Company) are classified as 'other financial liabilities at amortised cost'.

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