The leading specialist international food packing business

Hilton Food Group plc
Annual report and financial statements 2019

Contents

Hilton Food Group plc, the leading specialist international food packing business, announces its results for the 52 weeks to 29 December 2019.

In 2019, we successfully executed our strategy of continuing to grow and diversify our offering with the opening of our biggest factory yet in Brisbane, Australia, a move into other high growth proteins including vegetarian and sous vide, building on our existing retailer partner relationships and investing in our facilities. We continue to grow volumes and profit and explore opportunities to develop our cross-category business in both our domestic and overseas markets. Whilst the Covid-19 outbreak will test our established business continuity programmes, to date thanks to the dedication and resilience of our teams who have responded superbly, we have risen to the challenge.

Strategic highlights

- New facility opened in Brisbane, Australia with volume ramp up under way
- Investment in vegetarian product manufacturer, Dalco and acquisition of sous vide manufacturer, SV Cuisine expands the products range
- Increase in Tesco UK retail packed red meat to 100%
- New fresh convenience foods facility opened in Poland
- Agreement to pack red meat for Ahold Delhaize in Belgium with facility due to open in September 2020

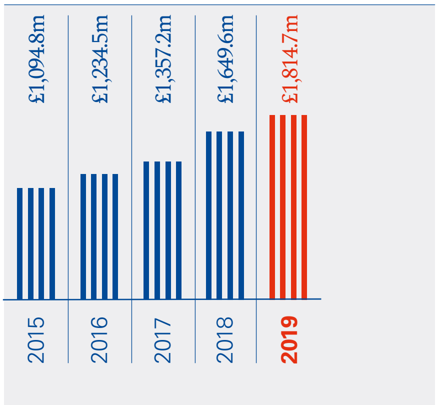
Operating highlights

- Volume growth of 7.8% driven primarily by strong performances in Australia and UK
- Turnover up 10.0% and 11.0% on a constant currency basis
- Adjusted operating profit growth of 12.4% and 13.8% on a constant currency basis with IFRS operating profit growth of 12.9%
- Strong operating cash generation up 4.5% with a robust balance sheet
- Significant £99m investment in facilities to support future growth

Financial highlights

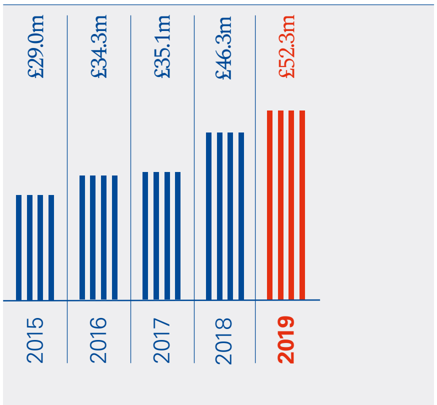
Revenue (£m)

£1,814.7m



Operating profit (£m)

£52.3m



Net bank cash/(debt) (£m)

£(88.2m)*

* Excluding IFRS 16.

For more information visit:
www.hiltonfoodgroupplc.com

Where we operate

United Kingdom

Location: **Huntingdon**	Location: **Grimsby**
Op Co: **Hilton Food Group plc/ Hilton Foods UK/Hilton Food Solutions** 1	Op Co: **Seachill** 2
Customers: **Tesco UK & Ocado**	Main customer: **Tesco UK**
Commenced production: **1994**	Acquired: **2017**

Location: **Wednesbury**	Location: **Londonderry**
Op Co: **SV Cuisine** 3	Op Co: **Foods Connected** 4
Main customer: **Tesco UK**	Customers: **Various**
Acquired: **2019**	Commenced joint venture: **2017**

Netherlands

Location: **Zaandam**	Locations: **Oss and Oosterhout**
Op Co: **Hilton Foods Holland** 5	Op Co: **Dalco Food** 6
Customer: **Albert Heijn**	Customer: **Various**
Commenced production: **2000**	Commenced joint venture: **2019**

Denmark

Location: **Aarhus**

Op Co: **Hilton Foods Danmark** 7

Customer: **Coop Danmark**

Commenced production: **2011**

Sweden

Location: **Vasteras**

Op Co: **HFG Sverige** 8

Customer: **ICA Gruppen**

Commenced production: **2004**

Ireland

Location: **Drogheda**

Op Co: **Hilton Food Ireland** 9

Customer: **Tesco Ireland**

Commenced production: **2004**

Portugal

Location: **Santarem**

Op Co: **SOHI Meat Solutions** 10

Customer: **Sonae**

Commenced joint venture: **2017**

Central Europe

Location: **Tychy, Poland**

Op Co: **Hilton Foods Poland** 11

Customers: **Tesco CE, Ahold CE, Rimi Baltic**

Commenced production: **2006**

New Zealand

Location: **Auckland**

Op Co: **Hilton Foods New Zealand** 12

Customer: **Countdown**

Under construction

Australia

Locations: **Bunbury and Melbourne**	Location: **Brisbane**
Op Co: **Hilton Foods Australia/ Woolworths Meat Company** 13	Op Co: **Hilton Foods Australia** 14
Customer: **Woolworths**	Customer: **Woolworths**
Commenced joint venture: **2013**	Commenced production: **2019**

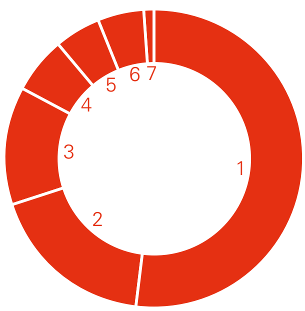
17
Production facilities

4,944
Employees

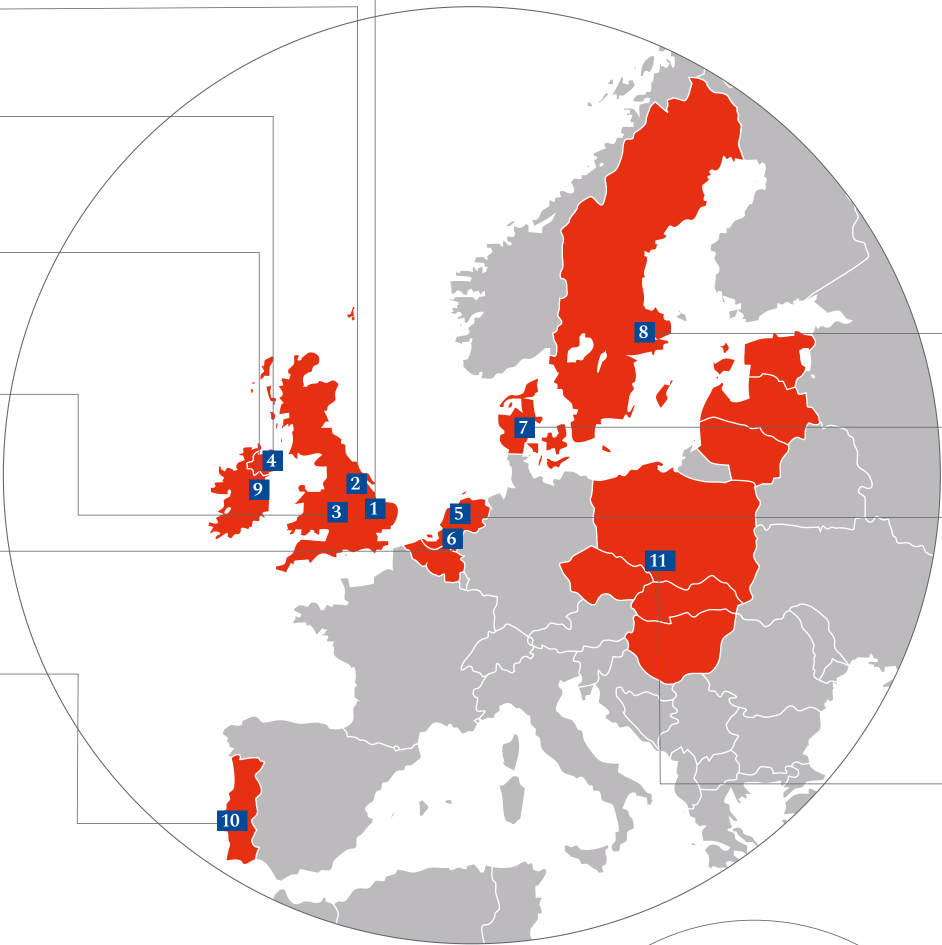
Revenue by location

£1,814.7m

1. United Kingdom	53%	5. Central Europe	5%
2. Netherlands	16%	6. Ireland	5%
3. Sweden	11%	7. Australia	5%
4. Denmark	6%		

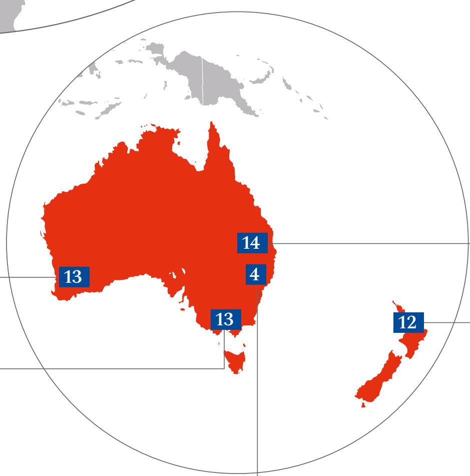


HILTON Food Group plc
HILTON FOODS UK
HILTON Food Solutions



HFG Sverige
HILTON FOODS Danmark
HILTON FOODS Holland
HILTON FOODS Poland

Meat Company
HILTON FOODS Australia



HILTON FOODS Australia
HILTON FOODS New Zealand
FOODS CONNECTED

Strategic Report

In this section

For more information visit:
www.hiltonfoodgroupplc.com

Chairman's introduction

"In 2019 we successfully executed our strategy of continuing to grow and diversify our offering. We are exploring opportunities to develop our cross-category business in both our domestic and overseas markets."

Robert Watson OBE
Executive Chairman

Global pandemic

The current evolving Covid-19 outbreak is a fast moving virus which presents major challenges for people and economies across the globe. There is significant uncertainty over the extent of the impact and longevity of the outbreak. Food production is a key industry so our challenge is to keep our facilities open, as part of an integrated supply chain, to ensure that our retailer partners are able to adapt to the currently increasing consumer demand for protein-based products. All of our facilities remain fully operational, and in addition we have established business continuity and flexible buy models and supply options, which may be tested during this period as we continue to play our part in feeding the nation and supporting ongoing demand. The dedication and resilience of our teams will be tested as we respond to this challenge. To date they have responded superbly and have risen to the challenge.

The health and wellbeing of our people is paramount and we have established a number of protocols to protect our people and to minimise contact. We are prioritising those that are most susceptible to Covid-19 including those with underlying health conditions. Travel by our colleagues, in line with government restrictions, is strictly managed as are visitors to, and movements within, our facilities together with extensive cleaning regimes and hand-sanitising stations. We have plans in place to respond to any virus spread within our facilities and to mitigate any resourcing shortfall through additional use of temporary labour.

We are dependent on our key suppliers to maintain a continued supply of raw material and packaging materials and we are in daily contact with them to manage availability and identify key critical product lines which must be delivered and those that could be postponed. There have not been any significant issues experienced to date.

We have a strong balance sheet including significant cash balances of £110m at the year end plus current committed but undrawn loan facilities of £116m. The resilience of the Group in the face of the uncertain challenges presented by Covid-19 has been assessed by applying significant downside sensitivities to the Group's cash flow projections. Allowing for these sensitivities and potential mitigating actions the Board is satisfied that the Group is able to continue to operate well within its banking covenants and has adequate headroom under its existing committed facilities.

So far we have coped well with the challenges and are confident that through our local operating model and financial strength we are well placed.

Strategic progress

I am pleased to report that 2019 was another busy year for Hilton with continued progress against our strategic objectives and the further expansion of our global footprint as we celebrated our 25th anniversary.

In January we completed a 50% investment in Dalco with options to acquire the remaining 50% in 2024. This enables Hilton to diversify into a further protein and significantly expand its product offering in the fast-growing vegetarian market.

In February we acquired SV Cuisine Ltd (formerly HFR Food Solutions Ltd) adding slow cooked products to our range. The fresh convenience foods facility in Poland opened in May with further products successfully launched. In June we increased our participation with Tesco UK to supply 100% of their retail packed red meat requirements. In July we opened our largest facility yet in Brisbane, Australia where we are progressively ramping up volumes. The joint venture transition arrangements in Australia are on track with the transfer of assets to Hilton due to take place at the end of June 2020. Finally we started to expand our seafood and vegetarian offering with our existing retail partners.

We are pleased to announce that we have reached agreement with Delhaize on a collaboration to pack all their red meat requirements starting 1st of September 2020 from a site in Belgium, covering beef, pork and lamb. Delhaize operates approximately 800 stores in Belgium and Luxembourg. We are also pleased that this represents a further extension of our working relationship with Ahold Delhaize.

We successfully executed our strategy to grow and diversify and continue to explore opportunities to develop our cross category business in both domestic and overseas markets as well as applying our state of the art skills and experience to deliver value to our customers.

Chairman's introduction
continued

Group performance

We grew our volume again in 2019 maintaining a trend of continuous growth achieved in every year since Hilton's flotation in 2007. There was strong operating profit growth of over 12% driven by the opening of our new Australian facility, growth of our UK seafood business and a good performance by the new Dalco joint venture. We continued to invest in people and infrastructure to support future growth across the Group. Basic earnings per share were over 8% higher compared to last year.

Hilton continued to generate strong operating cash flows during 2019 with, as expected, significant capacity investment resulting in year end net debt before adjusting for IFRS 16 of £88.2m compared with net debt of £26.8m at the end of last year. The continued investment in our facilities includes new technology to increase capacity, improve operational efficiency and offer innovative solutions to our retailer partners.

Dividend policy

The Board considers that maintaining the Group's dividend policy since flotation remains appropriate, given the continuing strategic progress achieved in 2019 and Hilton's strong cash generation. With the proposed final dividend of 15.4p per ordinary share, total dividends in respect of 2019 will be 21.4p per ordinary share, unchanged compared to last year.

Our Board and governance

The Hilton Board is responsible for the long term success of the Group and promoting the desired culture. To achieve this, it contains an appropriate mix of skills, depth and diversity and a range of practical business experience, which is available to support and guide our management teams across a wide range of countries. I would like to thank my colleagues on the Board for their support, counsel and expertise during the year.

I am delighted to welcome Rebecca Shelley who joined the Hilton Board as an Independent Non-Executive Director on 1 April 2020. Her market-facing investor relations and communications skills and experience in food and retail sectors further strengthens our capabilities.

We remain committed to achieving good governance and compliance with the UK Corporate Governance Code including succession planning and maintaining a talent pipeline balanced against our desire to preserve an agile and entrepreneurial approach.

The Board is fully aware of its responsibilities to promote the success of the Company for the benefit of its members as a whole under Section 172 of the Companies Act 2006. We take the interests of our workforce and stakeholders fully into account in Board discussions and decision making. Details of the Group's policies and procedures that have been implemented to enhance stakeholder and workforce engagement, which explain how these interests have influenced our decisions are set out in the Governance section of the Annual report.

Sustainability

Hilton recognises its environmental and sustainability responsibilities. Globally, society is demanding increased transparency from food operations, together with measurable progress against ambitious commitments. Many countries are declaring climate emergencies and setting a net zero carbon target. We are committed to continuing to foster the culture of sustainability across all levels of our business. One of our core values is a commitment to working in an ethical, open and honest way to produce products of the highest quality. We use our influence and expertise at a global level to make real change through our partnerships with market leading retailers, driving innovation and supply chain collaboration to deliver sustainable food to our consumers. This ensures that our business is resilient to the ever increasing major environmental, social and economic issues that affect us all. Our strategy demonstrates commitment to transparent science based action in our factories and in our supply chains and ensuring that our products meet the needs of future customers.

Outlook and current trading

Hilton's operating performance since the beginning of 2020 has been in line with the Board's expectations. We reached agreement to expand into Belgium and our facility there is due to open in September 2020. We continue to explore opportunities for further geographical expansion in both our domestic and overseas markets.

While there is significant uncertainty over the extent of the impact and longevity of the Covid-19 outbreak, we have so far coped well with the challenges and are confident that through our local operating model and financial strength we are well placed. Although there is continuing uncertainty concerning post Brexit negotiations on a trade deal and future co-operation with the EU we believe our predominantly local sourcing and operating model is sufficiently resilient to withstand these uncertainties whilst minimising disruption. Further details are in the Risk management section.

Short and medium term growth is underpinned by new facilities in Belgium and also in New Zealand which is due to open in 2021 together with expanding the seafood, vegetarian and fresh convenience food categories.

Annual General Meeting

This year's AGM will be held at Hilton's offices at 2-8 The Interchange, Latham Road, Huntingdon, Cambridgeshire PE29 6YE on 21 May 2020 at 1pm. Please refer to our website at www.hiltonfoodgroupplc.com/agm-2020 for further guidance which will be regularly updated as the AGM date approaches. I would strongly encourage all shareholders to submit their proxy votes.

Robert Watson OBE
Executive Chairman
6 April 2020

Chief Executive's summary

> There was further success in our meat category, fish saw a strong performance and the vegetarian joint venture has progressed well."

Philip Heffer
Chief Executive Officer

Strategic objectives

Our strategy continues to be to support our customers' brands and their development in local markets, whilst achieving attractive and sustainable growth in shareholder value. This clear and straightforward approach combined with a strong reputation, well-invested modern facilities and a robust balance sheet has generated growth over an extended period of time.

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.

We will continue to pursue both 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. We have successfully expanded our product range into new proteins and categories such as seafood, vegetarian, sous vide, food service and fresh convenience foods. We are responding to the Covid-19 challenge of protecting our people, feeding the nation and supporting the demands of our customers.

Business model

The Hilton business model is well proven and sustainable, whilst being relatively simple and straightforward. We operate large scale, extensively automated and robotised food processing, packing and logistics facilities for major international retailers on a largely dedicated basis.

Raw materials are sourced, in conjunction with our retail partners, from a combination of 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 food 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.

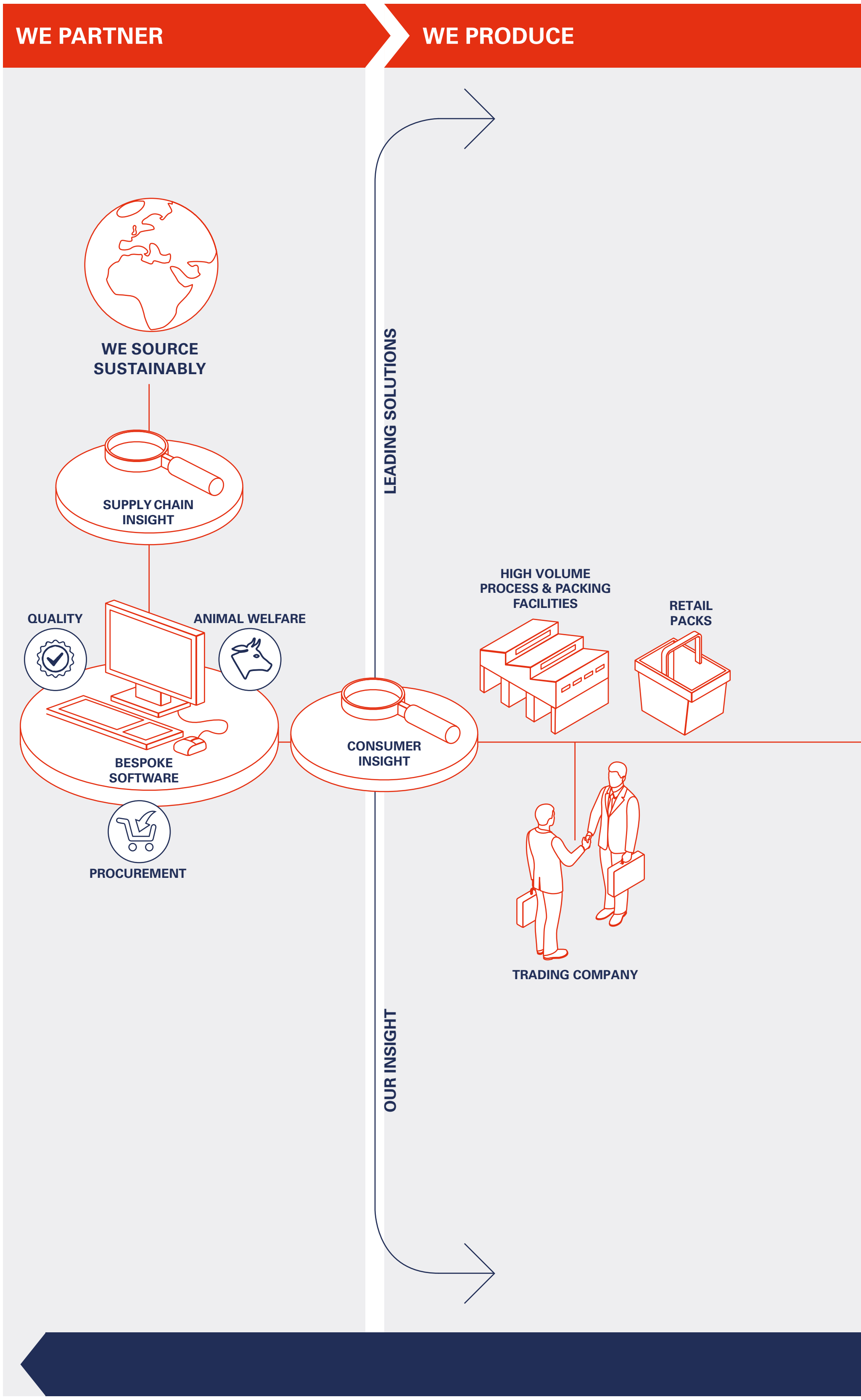
We consider our modern, very well-invested facilities to be a key factor in keeping unit packing costs as low as possible. Over the past fifteen years we have invested continuously across all areas of our business, including the sourcing of raw materials, the design of packaging materials, increased efficiency in processing and storage solutions and updating our IT infrastructure. Group capital expenditure over the period 2003-2019 has totalled £435m.

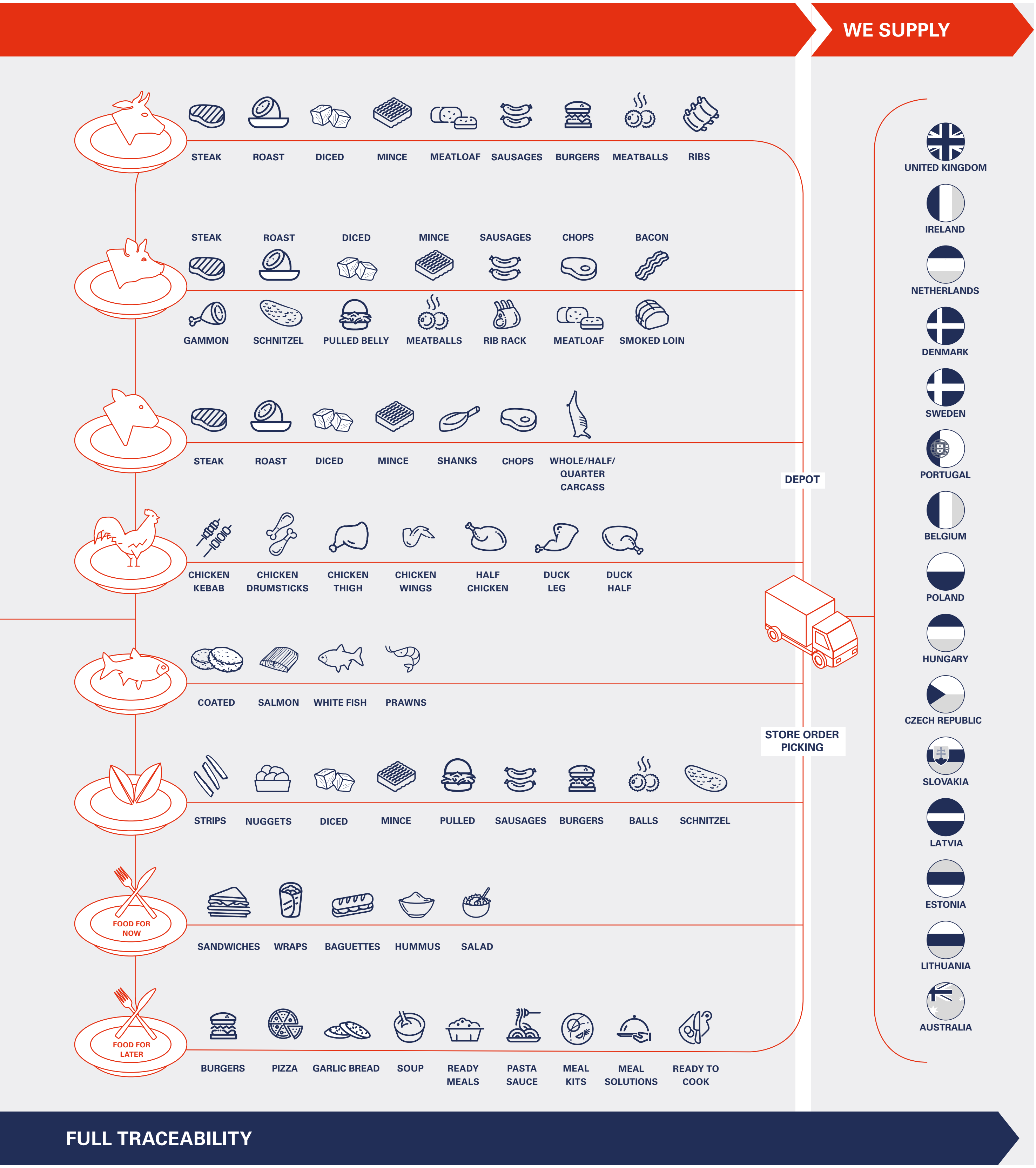
We operate facilities in seven European countries and three facilities in Australia, each run by a local management team enhanced by specialist central leadership, expertise, advice and support. These businesses operate under the terms of multi-year long term supply agreements with our retailer partners, 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, Portugal and the Netherlands, facilities are operated under joint venture companies in which we share the profits. Products from our facilities are sold in fourteen European countries and Australia.

Chief Executive's summary
continued

The Hilton business model is proven and sustainable, whilst being relatively simple and straightforward.

- A total partnership approach with customer and suppliers
- Raw materials sourced locally and internationally from proven suppliers
- Processed and packed in large scale, highly automated facilities using advanced robotics
- Delivered to retailers' distribution centres or direct to stores




WE SUPPLY
STEAK
ROAST
DICED
MINCE
MEATLOAF
SAUSAGES
BURGERS
MEATBALLS
RIBS
STEAK
ROAST
DICED
MINCE
SAUSAGES
CHOPS
BACON
GAMMON
SCHNITZEL
PULLED BELLY
MEATBALLS
RIB RACK
MEATLOAF
SMOKED LOIN
STEAK
ROAST
DICED
MINCE
SHANKS
CHOPS
WHOLE/HALF/ QUARTER CARCASS
CHICKEN KEBAB
CHICKEN DRUMSTICKS
CHICKEN THIGH
CHICKEN WINGS
HALF CHICKEN
DUCK LEG
DUCK HALF
COATED
SALMON
WHITE FISH
PRAWNS
STRIPS
NUGGETS
DICED
MINCE
PULLED
SAUSAGES
BURGERS
BALLS
SCHNITZEL
FOOD FOR NOW
SANDWICHES
WRAPS
BAGUETTES
HUMMUS
SALAD
FOOD FOR LATER
BURGERS
PIZZA
GARLIC BREAD
SOUP
READY MEALS
PASTA SAUCE
MEAL KITS
MEAL SOLUTIONS
READY TO COOK
DEPOT
STORE ORDER PICKING
UNITED KINGDOM
IRELAND
NETHERLANDS
DENMARK
SWEDEN
PORTUGAL
BELGIUM
POLAND
HUNGARY
CZECH REPUBLIC
SLOVAKIA
LATVIA
ESTONIA
LITHUANIA
AUSTRALIA
FULL TRACEABILITY

Chief Executive’s summary
continued

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 food 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 food supply chain management. Our customer base comprises high quality 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 food 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 we can put forward flexible solutions, together with continuing increases in efficiency and cost competitiveness. This flexible approach and understanding of our local markets remains one of our core strengths.

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, new product development, food related IT applications, category management support, logistics and market intelligence. We are able to apply these skills to a number of markets to support our customers in a cost-effective way.

Business development

The Group's expansion is based on its established and proven track record, international reputation and experience and the recognised success of the close partnerships we have forged and maintained with successful retail partners over many years. Hilton's business model has proved successful in Europe and Australia supplemented by targeted acquisitions. We have demonstrated that this business model is capable of being successfully transferred into new countries adapted with our local customers to meet their specific requirements.

Progress in 2019

There was further success in our UK meat category where we increased our participation with Tesco UK to supply 100% of its retail packed red meat requirements and our Huntingdon facility has been extended accordingly. Our relationship with Tesco was further strengthened through the acquisition of SV Cuisine adding slow cooked products to the range that we offer.

Seachill, now rebranded as Hilton Seafood UK, saw a strong performance in 2019 including a full year in the supply of shellfish and the launch of a new coated fish range together with supply into Australia. Investments in our Grimsby facilities included further automation and a new production line.

In Continental Europe trading has remained generally good. We are delighted to announce our further expansion into Belgium where a facility will open during 2020. Our fresh convenience food facility in Poland was completed during the year together with the launch of further products including ready meals, soups, hummus and meal kits and adding a further customer.

Our new facility in Brisbane, Australia opened significantly ahead of schedule on 29 July 2019 with production transferring across from the satellite facility and volume continues to ramp up. Work continued during the year with Woolworths on the transition of the joint venture which is on track. Construction of our new facility in New Zealand is ongoing and is scheduled to open in early 2021.

Following our investment, the Dalco joint venture has progressed well and listings have been secured with some of our existing retailer customers in Europe and Australia. The Foods Connected joint venture has signed up additional customers and further services are being developed.

On sustainability we made significant progress during 2019 under our strategy "Quality Naturally" including work to increase the recycled content of our plastic trays to 90%. We are involved in promoting sustainable beef and soy and the reduction on the use of fish oils in salmon feed. Our efforts are reflected in improved ratings given by the Business Benchmark on Farm Animal Welfare and a sector-leading 'B' rating from the Carbon Disclosure Project.

Hilton's expansion is based on its established and proven track record

Chief Executive's summary
continued

Progress in 2019 against our strategic objectives

	Strategic objectives			
	Volume growth with existing customers	Investment in assets & capacity	Focus on food, cost, quality & service	New territories & markets
Tesco increased in the UK to 100% including extension to UK facility	✓	✓	✓	
Acquisition of SV Cuisine supplying a slow cooked range in the UK to Tesco and other retailers	✓	✓	✓	✓
Seachill first full year of shell fish, launch of coated fish including investment in automation and a new production line	✓	✓	✓	✓
Central Europe fresh convenience foods facility completion, launch of additional products and add a new customer	✓	✓	✓	✓
New facility opened in Brisbane, Australia	✓	✓	✓	
Australia JV transition on track	✓		✓	
New facility in New Zealand under construction		✓		✓
Investment in vegetarian product manufacturer Dalco	✓	✓	✓	✓
Agreement since the year end to invest in a facility in Belgium supplying Delhaize				✓
Extension of fish products to Australia and vegetarian products to the UK and Australia	✓		✓	✓

Currency translation

The wide geographical spread of the Group increases its resilience by minimising its reliance on any one individual economy. Hilton's results are reported in Sterling and are therefore sensitive to changes in the value of Sterling compared to the range of overseas currencies in which the Group trades. During 2019 the average exchange rates for these overseas currencies have generally weakened against Sterling compared with 2018 which had the effect of reducing revenues by 1.0%.

Performance overview

2019 saw a significant expansion of Hilton's operations thereby building a significantly bigger and more diversified business.

Overall volume which includes the 50% share of the Australian, Portuguese and Dutch joint venture activities increased by 7.8% to 371,715 tonnes (2018: 344,784 tonnes). In 2019 some 69% of the Group's volumes were produced in countries outside the UK.

The performance of our three operating segments is outlined below.

Western Europe

Adjusted operating profit of £53.1m (2018: £51.5m) on turnover of £1,633.7m (2018: £1,550.4m)

This operating segment covers the Group's businesses in the UK, Ireland, Holland, Sweden, Denmark and Portugal. Volume growth was 6.1% driven primarily by UK meat and seafood and the contribution by the new vegetarian and sous vide investments. Trading in other markets was generally good although Dutch volumes were lower. Sales on a constant currency basis grew by 6.2% reflecting the higher volumes. Operating margins eased slightly to 3.2% (2018: 3.3%).

Central Europe

Adjusted operating profit of £2.1m (2018: £2.3m) on turnover of £91.2m (2018: £89.8m)

In Central Europe the Group's meat packing business, based at Tychy in Poland, supplies customers across Central Europe, from Hungary to the Baltics. Volumes decreased by 16.8% amid challenging market conditions partially offset by new fresh convenience food volume. Constant currency sales increased 3.7% primarily due to high pork prices. Operating margins declined slightly to 2.5% (2018: 2.6%).

Australasia

Adjusted operating profit of £9.6m (2018: £5.5m) on turnover of £89.8m (2018: £9.6m)

In Australia the Group operates a joint venture with Woolworths, under which it earns a 50% share of the agreed service fees charged by the joint venture company based on the volume of retail packed meat delivered to Woolworths' stores produced by its plants in Bunbury, Western Australia and Melbourne, Victoria. We took full operational control of these plants from July 2018.

Performance was driven by volume growth of 36.6% from the new Brisbane facility and our share of the joint venture. Constant currency sales, which excludes the JV activities, increased by 856%. Operating profit increased to £9.6m (2018: £5.5m).

Resourcing for growth: 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 Sustainability report.

The Group currently employs over 4,900 colleagues across Europe 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 2019 and their continuing commitment to the Group's ongoing growth and development.

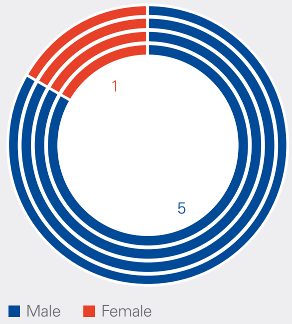
Past and future trends

Over recent decades major retailers have progressively rationalised their supply base through large scale, centralised packing solutions capable of producing private label packed fresh food products. This achieves lower costs with higher consistent food safety, food integrity, traceability and quality standards allowing supermarket groups to focus on their core retail business whilst addressing consumers' continuing requirement for quality and value. This trend towards increased use of centralised packing solutions is likely to continue, albeit at different speeds across the world, representing potential future geographical expansion opportunities for Hilton.

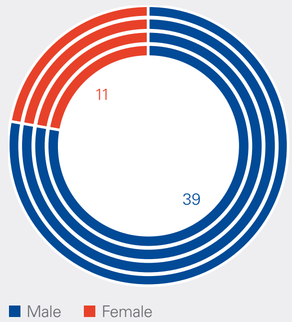
Consumer buying patterns are evolving with more seafood and vegetarian proteins being eaten. Through Hilton's acquisition of Seachill and investment in Dalco we are well placed to grow our business across these proteins.

Philip Heffer
Chief Executive Officer
6 April 2020

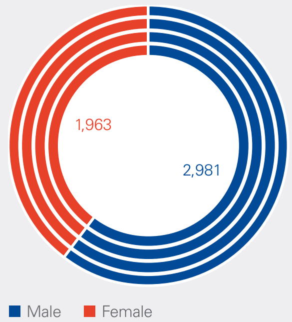
Directors



Senior managers



Employees



Performance and financial review

> "There was strong growth in volumes, sales, profitability and cash flow generation supporting our continuing significant investment in facilities."

Nigel Majewski
Chief Financial Officer

Summary of Group performance

This performance and financial review covers the main highlights of the Group's financial performance and position in 2019. Hilton's overall financial performance saw strong growth in volumes, sales, profitability and basic earnings per share. Cash flow generation was strong supporting our continuing significant investment in facilities.

Basis of preparation

The Group is presenting its results for the 52 week period ended 29 December 2019, with comparative information for the 52 week period ended 30 December 2018. The financial statements of the Group are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

The Group has adopted IFRS 16, applying the modified retrospective approach, and has not restated comparatives for the year ended 30 December 2018, as permitted under the specific transitional provisions in the standard. As a result, with the exception of revenue, the statutory results for 2019 are not directly comparable with those of 2018. However, in order to provide a meaningful comparison between the two reporting periods, financial results for 2019 excluding the impact IFRS 16 are also presented.

The Board uses adjusted profit before IFRS 16, acquired intangibles amortisation and exceptional items to measure performance and considers this metric better reflects the underlying performance of the business. The adjustment for acquisition intangibles amortisation of £2.4m (2018: £2.4m) is in connection with the 2017 Seachill acquisition. Unless otherwise stated financial metrics in the Financial highlights, Chairman's introduction, Chief Executive's summary and this Performance and financial review refer to the adjusted results.

2019 Financial performance

Volume and revenue

Volumes, which include 50% share of the Australian, Portuguese and Dutch joint ventures activities, grew by 7.8% in the year driven by higher Tesco UK participation to 100%, new vegetarian and sous vide investments and the Brisbane facility in Australia. Additional details of volume growth by business segment are set out in the Chief Executive's summary. Revenue increased 10.0% and 11.0% on a constant currency basis.

Operating profit and margin

Operating profit of £54.7m (2018: £48.7m) was 12.4% higher than last year and 13.8% higher on a constant currency basis driven by the opening of our new facility in Brisbane, Australia, growth of our UK seafood business and a good performance by the new Dalco joint venture. IFRS operating profit excluding IFRS 16 was 12.9% higher at £52.3m (2018: £46.3m) and £55.8m including IFRS 16. The operating profit margin in 2019 was maintained at 3.0% (2018: 3.0%), and the operating profit per kilogram of packed food sold increased to 14.7p (2018: 14.1p) attributable to changes in the Group's product and geographical mix.

Net finance costs

Net finance costs excluding IFRS 16 increased to £5.0m (2018: £3.0m) reflecting higher borrowings that financed our expansion programme. Interest cover in 2019 decreased to 11 times (2018: 16 times) accordingly. Net finance costs including IFRS 16 were £12.6m.

Taxation

The taxation charge excluding IFRS 16 for the period was £10.1m (2018: £9.1m). The effective tax rate was 20.2% (2018: 19.9%) reflecting a change in the mix of profits taxed at different rates in overseas countries, particularly Australia. The taxation charge including IFRS 16 was £8.0m with an effective tax rate of 18.5%.

Net income

Net income, representing profit for the year attributable to owners of the parent of £37.6m (2018: £34.5m) was 9.0% higher than last year. IFRS net income excluding IFRS 16 was £35.6m (2018: £32.5m) and including IFRS 16 was £33.1m.

Earnings per share

Adjusted basic earnings per share before exceptional items of 46.0p (2018: 42.3p) was 8.7% higher than last year. IFRS basic earnings per share excluding IFRS 16 were 43.6p (2018: 39.9p) and including IFRS 16 were 40.5p. Diluted earnings per share were 40.1p (2018: 39.5p).

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

EBITDA, which is used by the Group as an indicator of cash generation, excluding IFRS 16 increased by 13.3% to £80.1m (2018: £70.7m) reflecting the increase in operating profits together with higher depreciation charges. EBITDA including IFRS 16 was £102.4m.

Free cash flow and net cash position

Operating cash flow was strong in 2019 with cash flows from operating activities of £70.3m (2018: £53.5m). IFRS free cash outflow after capital expenditure of £99.4m and before dividends and financing was £28.5m (2018: £35.5m).

Group bank borrowings were £198.8m (including £1.4m IAS 17 finance liabilities) at the end of 2019 and, with net cash balances of £110.5m, resulted in a closing net bank debt position of £88.2m (2018: £26.8m). Net debt including the impact of IFRS 16 was £271.5m. At the end of 2019 the Group had undrawn committed loan facilities under its syndicated banking facilities of £71.1m (2018: £201.0m) with a further £45.3m added since the end of the year bringing total committed but undrawn loan facilities to £116.4m.

Dividends

The Board aims to maintain a consistent dividend policy and has recommended a final dividend of 15.4p per ordinary share in respect of 2019. This, together with the interim dividend of 6.0p per ordinary share paid in November 2019, represents a full year dividend that is unchanged as compared with last year. The final dividend, if approved by shareholders, will be paid on 26 June 2020 to shareholders on the register on 29 May 2020 and the shares will be ex dividend on 28 May 2020.

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:

Revenue growth
(%)

10.0%

2018: 21.5%

Definition, method of calculation and analysis: Year on year revenue growth expressed as a percentage. The 2019 increase mainly reflected volume growth and favourable product and geographical mix.

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

£80.1

2018: £70.7m

Definition, method of calculation and analysis: Adjusted operating profit before depreciation and amortisation. The increase reflected higher operating profits before higher depreciation charges.

Adjusted operating profit margin
(%)

3.0%

2018: 3.0%

Definition, method of calculation and analysis: Adjusted operating profit expressed as a percentage of turnover. The operating profit margin % in 2019 was consistent with 2018.

Free cash flow
(£m)

£(28.5)

2018: £(35.5)m

Definition, method of calculation and analysis: IFRS cash outflow before minorities, dividends and financing. Cash flow generation from operating activities was strong at £70m (2018: £53m) before spend on facilities capex spend of £99m (2018: £99m).

Adjusted operating profit margin
(pence per kg)

14.7 pence per kg

2018: 14.1 pence per kg

Definition, method of calculation and analysis: Adjusted operating profit per kilogram processed and sold in pence. The increase in 2019 is attributable to changes in the Group's product and geographical mix.

Gearing ratio
(%)

108.4%

2018: 37.9

Definition, method of calculation and analysis: Year end net debt excluding leases as a percentage of EBITDA. The increase is due to higher borrowings used to finance our expansion programme.

Non-financial KPIs:

Growth in sales volumes
(%)

7.8%

2018: 13.5%

Definition, method of calculation and analysis: Year on year volume growth. Volume growth was seen principally in the UK, new vegetarian and sous vide investments and a new facility in Australia.

Employee and labour agency costs
(pence per kg)

51.8 pence per kg

2018: 48.1 pence per kg

Definition, method of calculation and analysis: Labour cost of producing food products as a proportion of volume. The increase reflects a change in product mix including a broadening of our product ranges.

Customer service level
(%)

96.8%

2018: 98.1%

Definition, method of calculation and analysis: Packs of product delivered as a % of the orders placed. The decrease is due to the start-up of new businesses and projects during the year.

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

Performance and financial review
continued

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 ventures, 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 and commodity price movements. The Group sells high quality basic food products, for which there will always be continuing demand, to successful blue chip retailers in developed countries.

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 credit worthy major multiple retailers, the level of credit risk is considered to be insignificant. Historically the incidence of bad debts has been immaterial. Hilton's pricing is based either on a cost plus, packing rate or volume based reward basis with its customers.

Liquidity risk

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 2020 financial year and its longer term plans, including consideration of the principal risks faced by the Group. The evolving Covid-19 outbreak has led to an increased demand for protein-based products produced by the Group and the Group's facilities remain fully operational. The Group has established business continuity plans and flexible supply models in order to continue to meet this increased demand. The resilience of the Group in the face of the uncertain challenges presented by Covid-19 has been assessed by applying significant downside sensitivities to the Group's cash flow projections. Allowing for these sensitivities and potential mitigating actions the Board is satisfied that the Group is able to continue to operate well within its banking covenants and has adequate headroom under its existing committed facilities. 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 as 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 and based on forecasts and sensitised projections is expected to remain in compliance. 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 31 of the 2018 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 2022. 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, including those in relation to Covid-19, 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 food raw material, 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.

Cautionary statement

This Strategic report contains forward-looking statements. Such statements are based on current expectations and assumptions and are subject to risk factors and uncertainties which we believe are reasonable. Accordingly Hilton's actual future results may differ materially from the results expressed or implied in these forward-looking statements. We do not undertake to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Nigel Majewski
Chief Financial Officer
6 April 2020

Risk management and principal risks

Risks and risk management

In accordance with provision 28 of the 2018 UK Corporate Governance Code the Directors confirm that they have carried out a robust assessment of the emerging and principal risks facing the Group that might impede the achievement of its strategic and operational objectives as well as affect performance or cash position. As a leading food processor in a fast moving environment it is critical that the Group identifies, assesses and prioritises its risks. The result of this assessment is a statement of the principal risks facing the Group together with a description of the main controls and mitigations that reduce the effect of those risks were they to crystallise. 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

The Board believes that in carrying out the Group's businesses it is vital to strike the right balance between an appropriate and comprehensive control environment and encouraging the level of entrepreneurial freedom of action required to seek out and develop new business opportunities; but, however skilfully this balance between risk and reward is struck, the business will always be subject to a number of risks and uncertainties, as outlined below.

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 combining the set of business unit risk registers supplemented by formal interviews with senior executives and Directors of the Group. The Group has a Risk Management Committee which reports regularly to the Audit Committee and Board on the substance of the risk assessment and any changes to the nature of those risks or changes to the likelihood or materiality of the risk in question. The Risk Management Committee also reviews progress in control development and implementation of those key controls related to principal risks listed in this section of the report. Group Internal Audit derives its risk based assurance plan on the controls after considering the Risk Assessment and reports its findings to the Audit Committee. The Risk Management Committee also oversees the scenario based business continuity management exercises.

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.

Emerging risks

Global pandemic

The current evolving Covid-19 outbreak is a fast moving virus which presents major challenges for people and economies across the globe. There is significant uncertainty over the extent of the impact and longevity of the outbreak. Food production is a key industry so our challenge is to keep our facilities open, as part of an integrated supply chain, to ensure that our retailer partners are able to adapt to the currently increasing consumer demand for protein-based products. All of our facilities remain fully operational, and in addition we have established business continuity and flexible buy models and supply options, which may be tested during this period as we continue to play our part in feeding the nation and supporting ongoing demand. The dedication and resilience of our teams will be tested as we respond to this challenge.

The health and wellbeing of our people is paramount and we have established a number of protocols to protect our people and to minimise contact. We are prioritising those that are most susceptible to Covid-19 including those with underlying health conditions. Travel by our colleagues, in line with government restrictions, is strictly managed as are visitors to, and movements within, our facilities together with extensive cleaning regimes and hand-sanitising stations. We have plans in place to respond to any virus spread within our facilities and to mitigate any resourcing shortfall through additional use of temporary labour.

We are dependent on our key suppliers to maintain a continued supply of raw material and packaging materials and we are in daily contact with them to manage availability and identify key critical product lines which must be delivered and those that could be postponed. There have not been any significant issues experienced to date.

So far we have coped well with the challenges and are confident that through our local operating model and financial strength we are well placed.

Brexit

There is continuing uncertainty concerning post Brexit negotiations on a trade deal and future co-operation with the EU. Potential impacts on the Group include our ability to hire employees from the EU, increased trade tariffs on imported goods, possible border delays, currency volatility and dis-harmonisation of UK and EU regulatory standards in a range of areas. Hilton's exposure is somewhat mitigated through its predominantly local sourcing and operating model. Additionally we meet regularly with relevant industry bodies and have put in place a range of contingency measures including rebalancing supply lines to minimise border crossings, flexible buy models and ongoing communication with suppliers to increase stock holding. Overall we believe that the Hilton business is sufficiently resilient to withstand these uncertainties whilst minimising disruption.

Climate changes

There is increasing concern over the possible impact of climate changes across the world. Such changes could see a higher incidence of extreme weather events such as flooding and long term rises in average temperatures and sea levels. The impact of climate changes could disrupt our supply chains resulting in increased costs and added complexity. Hilton is fully committed to responding to such outcomes and have this under continuous review.

Principal risks

The 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 below. This is not intended to constitute an exhaustive analysis of all risks faced by the Group, but rather to highlight those which are the most significant, as viewed from the standpoint of the Group as a whole.

Description of risk	**The Group strategy focuses on a small number of customers who can exercise significant buying power and influence when it comes to contractual renewal terms at 5 to 15 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 has maintained a 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 may be affected by the success of its customers and the growth of their packed food sales.**
Its potential impact	The Group's products predominantly carry the brand labels of the customer to whom packed food is supplied and it is accordingly dependent on its customers' success in maintaining or improving consumer perception of their own brand names and packed food offerings.
Risk mitigation measures and strategies adopted	The Group plays a very proactive role in enhancing its customers' brand values, through providing high quality, competitively priced products, high service levels, 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 affected by the macroeconomic environment and levels of consumer spending which is influenced by publicity and the decline in the consumption of meat 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 including successful diversification within the vegetarian market, 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.

Risk management and principal risks
continued

Description of risk	**Under growth conditions the Group's business is reliant on a small number of key personnel and its ability to manage growth and change successfully. This risk has increased with the Group's continued expansion with new customers and into new territories with potentially greater reliance on stretched skilled resource and execution of simultaneous growth projects.**
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 an increased rate of growth successfully, the Group carefully manages its skilled resources including succession planning and maintaining a talent pipeline. The Group is evolving its people capability in line with the geographical expansion and product range. In particular it recognises that the span of management responsibility needs to be balanced with an appropriate management structure within the overall organisation. 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 and in deploying resource to support the growth projects appropriately. 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 current rate of global growth places significant demands on the effectiveness of integration and compliance across new political, legislative and regulatory environments. This risk is further compounded due to the enormity of the change and programme management activities.**
Its potential impact	The Group's ability to effectively manage simultaneously the requirements of the external and internal environments ensuring first class compliance, change and global programme management systems.
Risk mitigation measures and strategies adopted	As a Group we have continued to strengthen our in house capabilities delivering strong investment strategies, best in class infrastructure integration and governance and compliance framework. Resources are being put in place and structures reviewed to enhance project management control and oversight. Control systems embedded in project management enable the risks of growth to be appropriately highlighted and managed. To underscore our efforts we have active relationships with strong industry experts across all areas of business growth.

Description of risk	**The Group's business strength is affected by its ability to maintain a wide and flexible global food 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 food 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 food 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	**Contamination within the supply chain including outbreaks of disease and feed contaminants affecting livestock and fish 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 certain foods can cause consumer demand 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 our products.
Risk mitigation measures and strategies adopted	The Group sources its food 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. Within our factories, Global Food Safety Initiative (GFSI) benchmarked food safety standards and our own factory standard assessments drive the enhancement of the processes and controls that are necessary to ensure that the risks of contaminants throughout the processing, packing and distribution stages are mitigated and traceable should a risk ever materialise.
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 ransomware and 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 or extended times to recover data or functionality could impact the Group's ability to effectively operate its facilities and affect 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. This framework is established as the key control to mitigate cyber risk and is applied consistently throughout the Group. The increased prominence of IT risk is mitigated by investments in IT infrastructure and now forms a regular part of the Group Risk Management Committee agenda and presentations to the Board. In accordance with Group strategy IT risk is considered when looking at new ventures and control measures implemented in new sites follow the Group common standards. There is internal training and resources available with emphasis on prevention, user awareness and recovery. Increasingly, IT forms part of site business continuity exercises which test and help develop the capacity to respond to possible crises or incidents. The technical infrastructure to prevent attacks and the resilience to recover are continuously developed to meet emerging threats. IT systems including financial and banking systems are configured to prevent fraudulent payments.

Sustainability report

CEO Introduction 2019

Philip Heffer
Chief Executive Officer

I am pleased to report continued progress in 2019 against our strategic objectives by launching our comprehensive corporate social responsibility strategy, Quality Naturally. Our ambitious CSR strategy works across eight pillars in partnership with our customers and suppliers.

I am committed to continuing to foster the culture of sustainability across our business as it reflects the core values of our strategic compass. We are committed to working in an ethical, open and honest way to produce products of the highest quality.

Globally, society is demanding increased transparency from food operations, together with measurable progress against ambitious commitments. Many countries are declaring climate emergencies and setting a net zero carbon target. Our strategy demonstrates our commitment to transparent science based action in our factories and in our supply chains. We are supporting innovation that has the potential to deliver step change improvements in sustainability at scale.

We are analysing trends in consumer attitudes and behaviour, with particular reference to the younger generations, to help us to align our product ranges to meet their needs and aspirations for food that is both healthy for them, and healthy for the planet.

We will publish an assessment of how we are mitigating climate change risks and maximising opportunities in our next annual report. This will be in line with the developing guidance from the Task Force on Climate-related Financial Disclosures "TCFD".

In 2019 we demonstrated significant progress towards our sustainability targets:

- We have achieved a 70% average recycled content across our entire tray range;
- We increased our CDP climate score to B, combined with a supplier engagement score of A-;
- We built on our success of highest new entrant in last year's Business Benchmark in Farm for Animal Welfare by a further step up to Tier 2. This recognises that animal welfare is integral to our business strategy;
- Our Irish, British and Dutch operations are directly supporting soy farmers who are not contributing to further deforestation in South America, by purchasing sustainable soy credits;
- We committed to set Science Based Targets in Sweden, a first step in our ambition to set global targets in 2020;
- We have joined the European Roundtable for Sustainable Beef and we are founding members of the UK Cattle Sustainability Platform, both of which we see as pivotal in reducing the footprint of beef cattle farming;
- We have introduced sustainable algal oil into salmon feed to replace oils from wild captured fish, which has already achieved a 14% reduction in fish oil use in our largest supply chain; and
- We have reduced food loss and waste by 23% in our UK operations, meaning we are well on track to meet our 2030 commitments.

Hilton are taking the opportunity to use our influence and expertise at a global level to make real change. We do this through our partnerships with market leading retailers, driving innovation and supply chain collaboration to deliver sustainable food to our consumers. This is to ensure that our business remains resilient to the environmental, social and economic issues that affect us all.

Introduction to 2025 strategy

Our strategy leverages the influence of our scale, and builds on the many examples of leadership in sustainability within the Group. We understand that no single company can tackle these challenges alone. We recognise our responsibilities to measure and reduce the impacts of our own operations, our supply chains, and our products by a long term collaborative effort.

We have formed a dedicated team to build and deliver this strategy, who have engaged widely with our stakeholders to ensure our work is prioritised and aligned with the business strategy. The processes we used to develop the strategy are described in this report, together with the key objectives and how we will deliver them.

We decided on eight pillars of focus as the foundations of our ambitious CSR strategy. In each pillar we have set clear objectives and activities, closely aligned to our customers' long-term objectives, to deliver our global ambitions through local action.

INNOVATORS IN SUSTAINABLE PROTEIN

Our responsible business vision is to be the first choice partner for sustainable proteins. Driving innovation and excellence in our products, supply chains and factories.

EIGHT PILLARS OF OUR STRATEGY

Our people

Lead from the top, built into our DNA. Delivering our commitment to working safely and with regard for the wellbeing of others and the environment

Sustainable proteins

Leading collaboration of environmental sustainability for our key animals and crops

Packaging

Innovate to reduce plastic, maximise recycling and the use of sustainable packaging. Using our scale to drive transformational development of retail packaging materials aligned to the circular economy

Resourceful factories

Reducing environmental impact by waste reduction and energy efficiency

Transparency

Developing industry leading transparency solutions and openly reporting our responsible business progress

Animal health and welfare

Collaborating with suppliers to improve the lives of animals and reduce the use of antibiotics

Ethical supply chains

Collaborative action to improve the lives of workers across our supply chains

Consumer health innovation

Enabling balanced consumption and enhanced health options with solid sustainability credentials

Sustainability report
continued

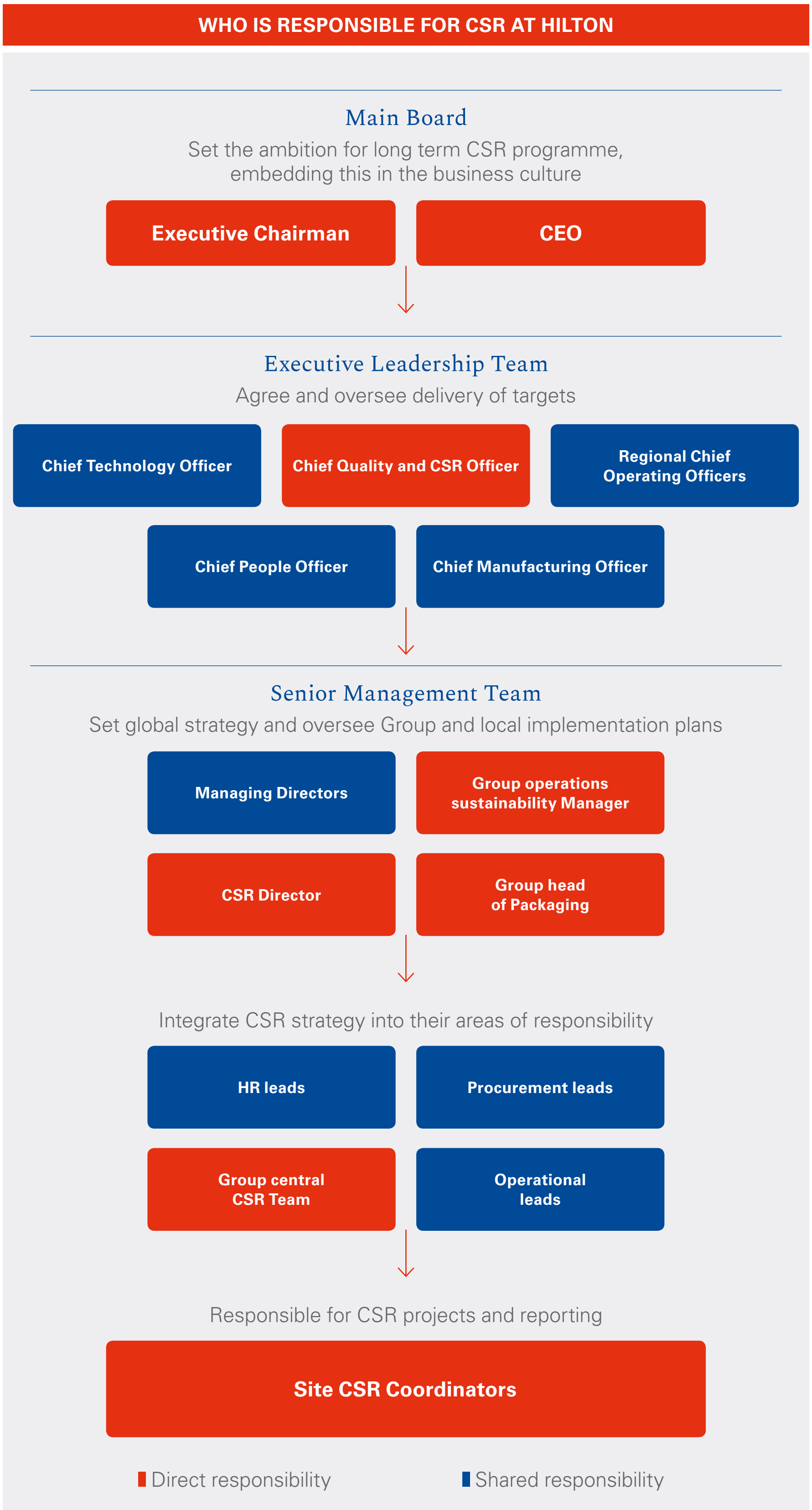
Governance

The Hilton commitment to sustainability is led from the top, fully supported by the Board, and is core to the growth and success of Hilton. Supporting our retail partners to achieve their Corporate Social Responsibility "CSR" objectives is integral to our business model. The CSR team (led by the Chief Quality and CSR Officer and the CSR Director) have developed the strategy.

Our CEO and the Executive Leadership Team are updated on the CSR agenda and progress towards our own commitments, and our customers' targets, on a monthly basis, with the main Board being updated every six months.

Hilton are in the process of producing a detailed evaluation of climate change risk and opportunity, aligned to the Task Force on Climate – Related Financial Disclosures "TCFD" framework. We are now mapping the climate change implications on the rest of our value chain to inform our collaboration with suppliers and customers in order to mitigate risk and capitalise on opportunities. Our approach is to understand the full life cycle impacts of the choices we take on our products and packaging, and champion the innovations that can deliver step change at scale.

The CSR and risk management teams work together to integrate climate change risks and opportunities into the wider business strategy. For more information see our latest climate change Climate Disclosure Project "CDP" disclosure. See CDP website www.cdp.net



How we work through the value chain

Hilton engage and convene the whole value chain to incentivise investment in step change improvements, which are economically sustainable at scale. Our focus is to deliver our customer priorities by collaborating with our supply chains.

We do not own farms, fishing vessels or abattoirs which gives us the freedom to work with the leaders in innovation and sustainability.

The diagram shows how we guide and influence at each stage of the chain.

Feed | Farm/Vessel | Abattoir | Hilton Food Group | Retail Customer | Consumer

AUDIT

CONTROL

GUIDE

GUIDE

INFLUENCE

INFLUENCE

Data driven tools to deliver supply chain transparency and solid sustainability credentials

Incentivising innovation and delivering market demand for sustainable feed components

Partnerships with suppliers and their farmers/ fi hers to catalyse uptake of innovation and create best practice, measuring and reporting outcomes

Ambitious targets delivered by investment in sector leading efficiency, and innovation in products and packaging. Developing our people, and caring for their wellbeing. Providing expert support to our customers

Strategic partnerships with market leading retailers to drive meaningful change at scale

Expert consumer insight driving category and product innovation

Building consumer trust in our industry

Industry collaborative working groups including NGO expert market insight

Sustainability report
continued

UN Sustainable Development Goals

Hilton supports the Sustainable Development Goals. Our CSR strategy contributes to many of the Sustainable Development Goals which were set out by the United Nations in 2015 to create a sustainable future by 2030. These goals can only be achieved through collaboration between NGOs, industry, individuals and governments. Our engagement with our suppliers, customers, governments, and NGOs covers the entire value chain. Our focus is on the four goals opposite.

SDG	How we are contributing
12 RESPONSIBLE CONSUMPTION AND PRODUCTION	Hilton have committed to halving our food waste by 2030 as a "Friend of Champions 12.3"(Champions12.3.org). We are measuring our food waste at every site and reporting globally. We have made Group-wide commitments to deliver sustainable packaging in a circler economy.
13 CLIMATE ACTION	We have set carbon reduction goals and are investigating the implementation of Science Based Targets for our own sites and supply chains. We are reporting our emissions of GHGs and water use through our annual report and CDP. We are investing in onsite electricity generation and renewable energy.
14 LIFE BELOW WATER	We lead in fishery and aquaculture supply chain collaboration and innovation in sustainability and welfare. Together with industry partners and NGOs we have negotiated voluntary marine protected areas and funded Fishery Improvement Projects. Our target is 100% MSC certified wild caught fish in our direct supply chains. In aquaculture we have introduced innovative solutions to address welfare and sustainability challenges including using algal oils to replace oils from wild caught fish.
15 LIFE ON LAND	We are setting targets to address deforestation, green house gas emissions, antibiotic use and productivity of our meat and vegetable proteins supply chains. We are members of the European Roundtable in Beef Sustainability. We are incentivising soy farmers to protect the forests through payment of credits equivalent to all the uncertified South American soy used in animal feed for our UK, Irish and Dutch markets.

This diagram demonstrates how we have developed our strategy to deliver specific outcomes that are relevant to our business and stakeholders. We worked with expert partners to map the issues that are most relevant to our stakeholders. We used these to create a prioritised list of objectives in each of the eight pillars of our strategy. The outcomes of this strategy will deliver tangible progress against the Sustainable Development Goals.

The roots of our CSR strategy and what we will deliver

Stakeholders

Retail partners	**Suppliers** (abattoirs, farmers, feed producers, fishers, ingredients, packaging, equipment, services)	**Trade Organisations**
Investors		**Trade unions and workers' councils**
Our people	**Farming Associations**	**National/Federal/ Local Government**
Neighbours/Local Communities	**Academia/Scientists**	**Regulators**
Environment and social NGOs	**Certifi ation schemes**	**Consumers**

MATERIALITY MATRIX

Outcomes

Industry leading animal welfare	**Sustainable farming and fishing**	**First choice employer/responsible recruitment**
Minimal material usage and effective Closed Loop recycling	**Transparent reporting to our customers**	**Choice of healthy, affordable and sustainable products**
Low carbon and resource efficient operations	**High ethical standards in our supply chain**	**Supporting local communities**

Positive impacts

Sustainability report
continued

Materiality Matrix

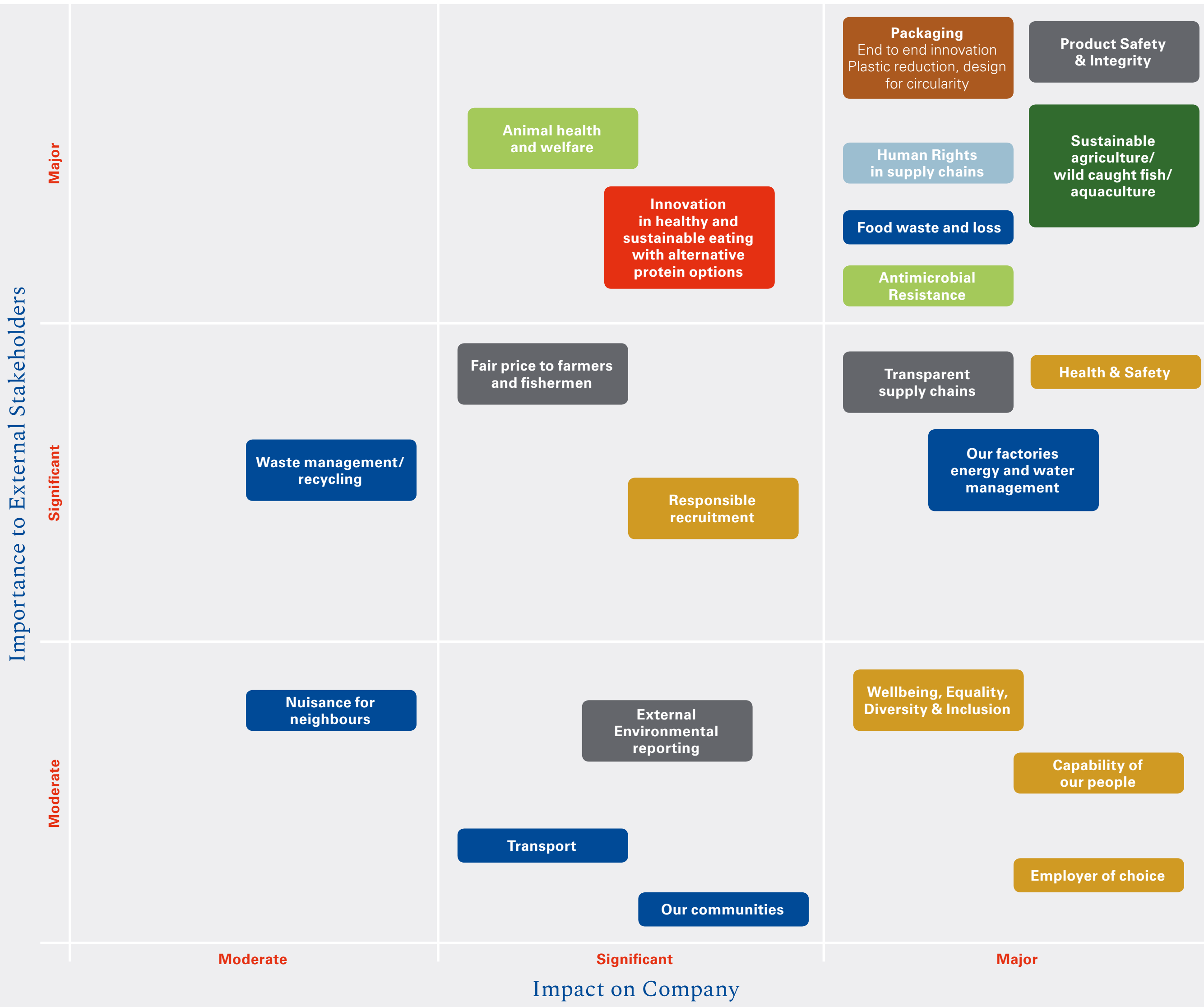
We use a materiality matrix to decide our priorities in order to identify the areas which have the greatest impact on our business and deliver the most benefit for our stakeholders.

This is developed with internal and external consultation including independent expert advice.

These material topics are considered within the wider risk management process. It was the first step in developing the Hilton CSR strategy as it ensures we focus on the right priorities.

Key:

GROUP LEVEL MATERIALITY MATRIX



Our people

Hilton is committed to ensuring our people are working safely and with regard for the wellbeing of others and the environment. This culture is led from the top, to ensure that it is embedded in everything that we do. Our greatest business strength is our people who ensure we are the leaders in our sector and trusted first choice partners.

Stronger Together

We work with Stronger Together to establish best practice recruitment procedures for our own people and those in our supply chains. We attend their training workshops and promote their helplines to our staff. We also train our managers and team leaders to look for signs of anybody having been affected by modern slavery.

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 Executive Officer, is responsible for health and safety and environmental matters across the Group.

We monitor and review all near misses, 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. In addition, during 2019 new roles were introduced at Group level to drive and share best practice in respect of Health and Safety across the business.

Key statistics are as follows:

Sickness rate (%)	**Reportable accidents**	**Recorded accidents** per 100,000 hours worked
3.5%	103*	4.4
2018: 3.3%	2018: 68	2018: 5.3

* Increase on 2018 is mainly due to the first full year reporting for Australian sites along with increased volumes and activity across our European sites.

Attracting and developing the best people

At Hilton we believe in a very simple equation which is that happy people at work results in happy customers and happy customers ensure our future successful growth. This is why we have in place a people strategy that sustains and builds colleague engagement and ensures that Hilton continues to be an attractive employer. This strategy and plan has three simple thoughts at its heart:

- People who have the capability to deliver great results;
- People who want to work for us and love working for us; and
- People who are supported to perform at their best.

People who have the capability to deliver great results

Attracting and developing the kind of talent we will need in the future, whilst also developing existing colleagues to their full potential is vital. We are an inclusive business. All our people are talented, and we ensure that we give equal access to all opportunities.

To support our aspiration a learning and development blueprint is being implemented which paints a picture of our ambition for learning and development within Hilton and provides a framework showing how we will support our people during their career lifecycle.

Built on a common leadership competency framework, we have in place succession and capability management approaches that provide a clear picture of succession to our most senior roles and bespoke programmes to support the development of high potential colleagues. Our approach supports diversity and inclusion by ensuring that the capability of all leaders is reviewed and conclusions regarding future potential stem from high quality, evidence-based conversations incorporating the consistent criteria established through the leadership framework.

Sustainability report
continued

The approach is facilitated by our human resources teams to encourage healthy challenge and broad thinking and plans are in place to cascade this approach further into the organisation. The recruitment process for senior roles also incorporates the same leadership competency framework. This ensures a balanced assessment of the candidate with greater emphasis on transferable leadership behaviours.

Gender diversity is of great importance to the business and this year we developed and implemented a Diversity and Inclusion policy. In 2020 this policy will inform the development of our three year Diversity and Inclusion strategy.

People who want to work for us and love working for us

Making sure that our people are genuine advocates for Hilton and that they feel connected and committed to the business is essential.

This year we continued our programme of engagement initiatives including our annual leadership conference and operating company town halls. Designed to ensure our colleagues are fully engaged and understand their contribution in delivering and supporting our purpose, ambition, principles and values as described by our strategic compass. These vehicles also enabled the sharing of Company performance.

We have also continued to develop our MyHFG app. Communicating with colleagues is always a challenge in a manufacturing environment. MyHFG enables us to get the information our colleagues need to them. It is also the vehicle by which our colleagues can submit questions and feedback to our Board. Additionally, we continue to listen to our colleagues.

In 2019, we conducted our first global engagement survey and ensured robust follow up to continuously improve colleague experience. In addition, our operating companies ensure mechanisms are in place to consult our colleagues and their representatives in keeping with legislative requirements and cultural norms.

People who are supported to perform at their best

Sustaining a high performance culture in which excellence is appropriately defined and rewarded is critical and even more so as Hilton experiences further growth.

A percentage of our senior leaders' short-term incentive payment is linked to the delivery of their personal objectives. This is because we focus on ensuring that we reward the "how" as well as the "what". Because, at Hilton, we believe the way we behave when we deliver is just as important as what we deliver.

A particular focus of our leaders' objectives is one team and collaboration. This focus ensures we truly deliver on our principle of networked people and knowledge. We have developed a total reward approach and commenced a review of roles to develop a Group-wide approach to grading our managerial and support positions.

For some time, we have offered all colleagues the opportunity to participate in a Sharesave scheme. This enables those who choose to participate the chance to further gain from the success of Hilton, creating an even better understanding of Company performance and supporting our high-performance culture.

The Group, in common with most commercial undertakings, utilises 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.

Supporting our local communities

As part of our commitments to wellbeing and sustainability, we continue to support the communities and local charities where we operate. We give food donations to local charities, sponsor sporting events, and provide work experience for local secondary schools and internships for graduates.

As an example Hilton Seafood's Learning and Development Advisor is the chair of the Seafish Yorkshire and Lincolnshire Training Network, that promotes Seafood Industry careers. They hosted a visit from Careers Advisors from schools and colleges, where they met enthusiastic employees and discussed the huge array of job roles within the industry. They also held a seafood lunch in the largest local school where they talked to pupils about career opportunities in Hilton.

During 2019, Hilton made charitable donations amounting to £78,879. The Hilton Food Group Charitable Foundation promoted our third charitable golf day raising £120,000 for East Anglia's Children's Hospices and The Cure Parkinson's Trust.

300 tonnes

We have donated around 300 tonnes of product surplus during 2019 to local food charities supporting vulnerable people in the communities in which we operate.

Sustainable proteins

At Hilton we are engaged in helping to shape and guide the sustainability agenda in our supply chains. The transition to a low carbon future will require action by factories, farmers and fishermen, but it is possible to produce sustainably at scale by driving uptake of the best technology and practices.

Our approach is to help form collaborative action forums, and take a leading role in addressing the most important environmental issues in our supply chains.

We recently joined the Sustainable Agriculture Initiative "SAI" Platform as we are committed to help drive the innovations that will reduce the footprint of our supply chains. To achieve this goal we need to collaborate with like-minded companies across all of our main proteins, to encourage uptake of these innovative solutions at scale.

The objectives include reducing the greenhouse gases produced by farms and fishing vessels, stopping deforestation, protecting biodiversity on land and in the oceans, and the sustainable harvesting of fisheries.

To address land animal sustainability we are engaged in collaboration across the meat industry to measure and mitigate the impacts of farming. We are also investigating the use of innovations in feed and farming that can step change the reduction in Greenhouse Gases, such as feed supplements that reduce the methane produced by cattle.

Oceans cover 70% of the globe yet only produce 2% of our food. There is a huge opportunity to grow sustainably farmed fish and shellfish in the ocean and on land. Wild caught fisheries need to maximise their yields, select only the species and sizes they are targeting, and minimise their impacts on sea birds, marine mammals, and vulnerable marine ecosystems. At Hilton we are engaged in setting sustainability standards and actively working in improvements for both industries.

For fisheries this includes supporting and funding fishery improvement projects aimed at certification, promoting uptake of selective fishing gear, and helping establish voluntary protected ocean areas. For aquaculture we are promoting the uptake of innovative feed ingredients that replace wild caught fishmeal and oil, and supporting the development of best aquaculture practice standards.

We have been working with WRAP through the Courtauld 2025 Meat Working Group to address climate change. Within the UK the government and National Farmers Union have set net zero targets. This group has been set up to facilitate working across the supply chain including academics, government and other stakeholders.

SAI PLATFORM

Sustainability report
continued

Sustainable proteins objectives

Objective	How we are achieving it
Zero net Deforestation in our supply chains by 2030	Our ambition is that we will source all our animals, plant proteins and all the soy used as animal feed in our global supply chain from areas which are verified as zero deforestation. To create the critical demand for physical supply of sustainable soy we are working in collaborative soy roundtables. As a first step our Irish, British and Dutch operations are using market forces by purchasing credits equivalent to all the volume of uncertified South American soy consumed by the animals that we have purchased. This is supporting farmers directly ensuring their supply chains do not contribute to further deforestation. As part of our UK Roundtable on Sustainable Soya commitments, Hilton have aligned with our UK key customers and developed a UK Zero Deforestation Soy Transition Plan. To achieve this we will work with our supply chain partners to transition our South American soy from farm level certification towards sourcing from verified zero deforestation areas, through the following phases: 1. Transition to zero deforestation soy credits schemes, this has started with 2018 purchases for Tesco, where we have estimated the soy consumed. 2. Transition to Area Mass Balance (or Mass Balance) certified soy, by end of 2020. 3. Transition to sourcing from verified zero deforestation areas, by 2025. Our transition plan phase 1 roll out started in partnership with Tesco in 2018. We mapped the soy used in animal feed through direct traceability back to the feed manufacturers, where possible. The transition to phases 2 and 3 has started with the development of sustainable soy specification standards between processors, farmers, feed suppliers and soy producers. Hilton are actively contributing to these processes. Hilton are signatories to the Cerrado Manifesto Statement of Support https://cerradostatement.fairr.org/, which sends a clear market signal that there is widespread industry support to halt deforestation in the Cerrado, adopt sustainable land management practices and mitigate financial risks associated with deforestation and climate change. By this collective response we can help safeguard global forest loss. We are looking forward to playing our part and working in collaboration with industry partners and others to achieve this goal.
To set Science Based Targets for our supply chains. This will ensure we play our part to stay below the IPCC global warming thresholds	The key to this is to deliver reductions in our supply chain footprints in collaboration with our suppliers. We are engaging with the key suppliers to encourage them to set their own science based targets and for us to collectively influence the farmers and fishermen that produce the raw materials.
An intensity reduction of 15% in GHG emissions of cattle by 2025 (aligned to the European Roundtable for Beef Sustainability)	We are forming expert science based partnerships to develop measurement models, evaluate solutions, and monitor the impacts of the mitigation strategies. Our engagements include being founder members of the UK Cattle Sustainability Platform and joining the UK Centre for Innovation and Excellence in Livestock. The aim is to demonstrate how mitigation and sequestration can significantly reduce the climate impact for farming and potentially positively contribute to global cooling. With our suppliers and WWF we are agreeing a comparative measurement process to assess the impact of interventions including improving the genetics of the herd, using feed additives that inhibit methane production, and improving farming practices such as pasture and manure management. We also have an aim of setting a future target that recognises the positive role beef production can contribute to mitigating climate change through reduction strategies and sequestration.

Sustainable proteins objectives continued

Objective	How we are achieving it
100% of our direct supply of wild caught fish to be certified as sustainable	We are sourcing wild capture fish from certified fisheries and for the few remaining fisheries we are establishing and helping to fund credible fishery improvement programmes "FIPs".
Reducing the dependence on wild capture fishmeal and oil in aquaculture feeds	We are working directly with the feed companies to facilitate workshops where alternative novel feed ingredient suppliers, farmers, and retailers can meet and find collective solutions to bringing these ingredients to the mainstream market. Our salmon suppliers have led the industry in the adoption of alternative ingredients such as algal oils and insect meals. The aspiration to use these has been included in the supplier standards and uptake is rising year on year. Our principal salmon suppliers achieved a 14% reduction in use of wild caught fish oils in Salmon feed by replacing these with sustainable Algal oil.

Replacing wild caught fish oil in our salmon feed with sustainable algal oil

Hilton Seafood are actively working with our farmed salmon suppliers to improve the sustainability of what is one of the biggest volume seafood products that we sell. We are looking for innovations that have the potential to deliver step changes at scale, and this is an example of how we are achieving this in partnership with our suppliers.

Salmon is rich in Omega-3, which is essential for both our health and that of the salmon. The specific Omega 3 fatty acids that they need come from feeding the salmon with oils from wild fish that are a limited resource. We are answering this problem by replacing a large portion of traditional fish oil with algal oil, rich in Omega-3 oils extracted from microalgae. To improve our supply chain sustainability, our salmon is going flexitarian.

Hilton Seafood are the supplier of fresh salmon to Tesco and we have worked together to encourage our key farmers to introduce then scale up the use of its Omega-3-rich algal fish oil. Algal oil can be grown sustainably on an industrial scale, in tanks on the land, using renewable energy. You would have to harvest approximately 20 tonnes of wild fish to provide the equivalent amount of Omega-3 from one tonne of algal oil.

One of the largest salmon farmers in Norway, the Lerøy Seafood Group, have taken a leading role by introducing algal oil to all of their salmon feed. Harald Sveier, the Technical Manager of Lerøy Seafood Group, has researched the best ways to reduce the reliance on fish oil and he is convinced of the benefits.

"A fish fed on microalgae as part of the diet also has a lower carbon footprint compared with a fish fed on traditional fish oil. We include more algal oil than the fish needs under normal conditions, increasing the omega-3 fatty acids in the feed by 25% from 6% to 7.5% of the total fatty acids."

Harald Sveier

"The good thing with Hilton and Tesco is that we have discussion partners who really know the pros and cons of all the raw materials. We can always have a long wish list for reducing our carbon footprint, but there's a difference between having a wish list and really producing something. Tesco and Hilton have really supported us in our work to move from a wish list to actually getting a more sustainable product on your plate."

Harald Sveier,
Technical Manager of Lerøy Seafood

Sustainability report
continued

Packaging

Our Hilton packaging sustainability strategy is to use our scale to drive transformational development of retail and supply chain packaging materials aligned to circular economy recycling infrastructures.

We achieve this through working on innovative solutions in partnership with our suppliers and industry experts to ensure we are using the minimal and most sustainable packaging across our value chain.

PACKAGING TARGETS

All packaging will be fully reusable, recyclable or compostable by 2022

All paper and board used will be 100% sustainable by 2020

Achieve a minimum of 50% average recycled content across all plastic packaging by 2020

Our UK Plastics Pact commitments

The UK Plastics Pact is a world first initiative that tackles plastic pollution and will make single use plastic packaging a thing of the past.

It is led by WRAP in partnership with the Ellen MacArthur Foundation.

By 2025

- Take actions to eliminate problematic or unnecessary single use plastic items through redesign, innovation, or alternative (reuse) delivery models
- 100% of plastic packaging will be reusable, recyclable or compostable
- 70% of plastic packaging will be effectively recycled or composted
- To achieve a 30% average recycled content across all plastic packaging

Achieved 70% average recycled content across entire tray range.

70%

THE UK PLASTICS PACT

wrap

Packaging objectives

Objective	How we are achieving it
All our retail packaging will be fully reusable, recyclable or compostable by end of 2022	We have eliminated the use of PVC and polystyrene in all products sold to our retail partners. The majority of our black and coloured trays are already detectable, and we have solutions for the remainder. A high proportion of our meat trays are made from 100% recycled PET and are fully recyclable. We are investigating ways to get all our plastic packaging to be recyclable by switching to mono materials where possible. Alternative packaging solutions are being investigated in order to reduce our plastic usage. We are working in partnership with innovative solution providers such as chemical recycling to achieve our 100% recyclability goal.
All paper and board used will be 100% sustainable by end of 2020	All our main paper and board packaging are sourced from FSC or PEFC sustainably certified forests. We have identified solutions for the remaining small percentage.
Achieve a minimum of 50% average recycled content across all plastic packaging by end of 2022	We are investigating innovative solutions to provide circular recycling for meat and fish trays. We are working to achieve a 100% recycled content of our trays and a higher percentage of recycled content in our films and bags. We are currently exceeding our target but are mindful of the availability of recycled materials in the future.
Reducing the weight of our plastic packaging whilst ensuring it remains fit for purpose	Where possible down-gauging plastic trays while maintaining their rigidity through innovative design.
Working with the fish industry to replace polystyrene boxes	Trials with circular recyclable cardboard and reusable trays.
To explore recycling solutions for our primal bags	We have joined with WRAP in the UK to test their suitability for chemical recycling.

Sustainability report
continued

Resourceful factories

At Hilton we want to reduce our environmental impact by improving resource efficiency and reducing our greenhouse gas emissions. We are world leaders in processing innovation and our factories are the most efficient in their sectors. Consumers are increasing their awareness and expectation that food and energy should not be wasted at any stage.

In 2019 we committed to setting Science Based Targets for our Swedish operations as a first step towards our ambition to set Group-wide targets in 2020, which we are currently evaluating in detail.

We are improving our data collection capabilities in our factories to give us a detailed breakdown of live energy and water use, allowing us to actively manage our energy in real time and enabling us to be as efficient as possible.

We are constantly investing to upgrade our facilities and have seen major success in our latest efficiency projects, for example heat recovery pumps in our refrigeration systems are proving to be around 38% more efficient at heating our hot water requirements. Whereas smart refrigeration controls have improved efficiency in energy consumption of refrigeration system by around 30%.

The Group has also placed a strong focus on Food Loss and Waste as food should not be wasted at any stage in our supply chains. We have been publicly reporting our food waste data in the UK since 2018 through the Champions 12.3 initiative and we are using this framework through the Group to target and reduce food waste by 50% by 2030 as a "Global Friend of Champions 12.3" (Champions 12.3.org). This is directly linked to helping us meet the goals of SDG 12 alongside our retail partners.

1,881,810

Electricity renewable generation KWH

11,552

Tonnes CO_2e Scope 1 emissions (Location based)

52,218

Tonnes CO_2e Scope 2 emissions (Location based)

0.17

Tonnes of CO_2e per tonne of product*

2.09

Water usage in cubic metres per tonne of product

23%

Reduction in food waste in our UK sites in 2019

* This figure has increased due to the inclusion of our first full year reporting for Australian sites, compounded by the fact that Australian electricity consumption carries a relatively high location based emission factor.

Smart energy management

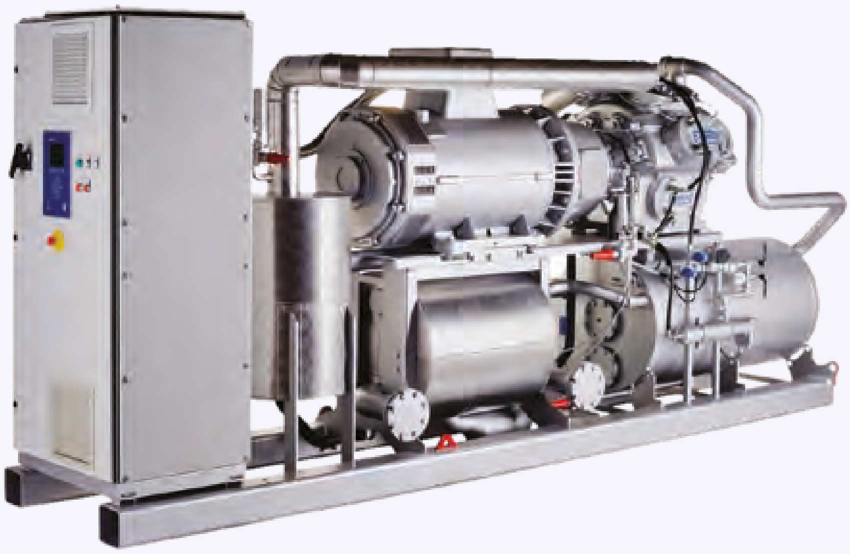
As part of mitigating our carbon footprint and making our factories as resource efficient as possible, we have a number of smart refrigeration controls. Firstly, we use heat pumps to recover heat produced by our refrigeration, we then use this as a source to heat our water demands for processing. This process is very suitable to our factories as we have large cooling requirements and this waste heat would otherwise be lost into the atmosphere.

The heat pump mitigates around 40% of carbon emissions compared to separate gas heated equivalent systems.

Another example of our smart refrigeration is the active energy management control system. This uses weather, production and energy usage data to ensure we are using the minimal amount of energy for our cooling requirements at any given time.

Our wider energy management system integrates all our significant energy users such as refrigeration, compressed air and water heating. The system alerts users when equipment is potentially running inefficiently by flagging when the equipment is consuming more than a set threshold.

Overall we use these controls to lower equipment maintenance cost, reduce consumption and lower carbon emissions.



Heat recovery pump

Resourceful factories objectives

Objective	How we are achieving it
Science Based Targets	Commit to setting Science Based Targets as a Group to ensure our carbon reduction targets are ambitious and in line with the latest climate science. This will also ensure we encourage our supply chain to reduce their impacts.
Reduce food waste by 50% by 2030	Implement action plans at each site using the Champions 12.3 framework, sharing best practice with all sites throughout the Group.
Standardised energy management	Extend ISO 50001 energy management framework to all sites.
WRAP Initiatives	We are signatories to the Courtald commitment 2025, which is an initiative to cut the carbon, water and waste associated with our food production, by 20% by 2025 in our UK operations.

Committed to setting **Science Based Targets** in Sweden, our first step towards setting global targets

SCIENCE BASED TARGETS

DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

Sustainability report
continued

Transparency

Food Safety and Quality Policy

Hilton Food Group is committed to working in an ethical, open and honest manner to produce products of the highest food safety and quality. This is underpinned by our Group Quality Policy which outlines our commitment across the Group to:

– Food safety, product quality, legality and integrity;
– The achievement of customer satisfaction by adherence to product specifications and service requirements;
– Adequate resources in the pursuit of "Continuous Improvement" for our products, processes and our people; and
– A programme to develop a food safety culture.

Our commitment to food safety and quality combined with our first-class manufacturing facilities and our customer focus makes us the first choice for our retail partners.

Factory standards and quality systems

We are proud of our modern, specialised processing and packing facilities which use state of the art production equipment, including a high degree of automation and the use of robotic equipment which minimises handling. This combined with our high standards of hygiene and our temperature controls ensure we meet our customers' expectations for quality throughout the product's shelf life.

Our well trained production operatives are responsible for the quality of our retail partners' products and they are supported by highly qualified and experienced quality assurance and technical teams at each site. Each of our sites undergo independent third party accreditation to a GFSI (Global Food Safety Initiative) recognised certification scheme. Our retail customers make frequent visits to our sites, which in some cases includes unannounced audits and visits as part of their own surveillance. 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.

All of our sites received the highest levels of third party and customer audit results in 2019.

We maintain strong links with academia and technological advances, working alongside Campden BRI, Danish Meat Research Institute and Teagasc Ireland.

We are also members of a number of trade associations such as British Meat Processors Association, Food and Drink Federation and Seafi h.

Product Standards

The quality of the raw materials used in our products contributes significantly to the achievement of consistent finished product quality. We work closely with our suppliers to set clear specifications for the products they supply. Monitoring incoming raw material quality combined with close control of the processes we follow in our manufacturing operations ensures we are able to consistently meet the best in class specifications our retail partners set for our products.

Supply Chain Integrity and Traceability

We partner with the best suppliers that share our commitment to quality, food safety, animal welfare and sustainability.

We are committed to ensuring the integrity and traceability of the raw materials we use in our products, this includes the meat, fish, ingredients and packaging. We have developed our own Supplier Standards for each raw material group which clearly state the standards we expect our suppliers to operate to. Audit frequency is determined by risk assessment which looks at a combination of raw material and supply chain threat and vulnerability, horizon scanning and supplier history.

We have full traceability back to the farms and fishing vessels that supply the slaughter operations and primary processing factories in our supply chains.

We also buy directly from many fishing vessels that freeze their catch at sea giving us direct relationships with the major fishing quota owners. Our supplier approval process gives us full transparency on the safety, quality, traceability and provenance of the raw materials we use.

This ensures our product labels correctly describe the provenance of the product, including its species and country of origin so that consumers can have trust in the products we produce.

Hilton continually develops and refines testing methods, data collection and reporting. Samples collected from raw material deliveries are assessed for compliance to microbiological standards and agreed quality specifications.

Results are used to assess the performance of suppliers and achieve continuous improvement.

We are members of the Food Industry Intelligence Network where we compile industry wide compliance statistics and share intelligence on suspected food fraud.

fiin FOOD INDUSTRY INTELLIGENCE NETWORK

Ensuring the sustainability of food requires transparency across the value chain to prevent negative environmental and social impacts. New technologies and tracing methods will inform consumers about the origin and methods of production, and how human rights are ensured.

The visibility of supply chains provides a platform for action and is the foundation on which all our sustainability objectives are built.

We are actively involved in developing and implementing industry leading transparency solutions to capture and report CSR metrics to give our customers full visibility and assurance of standards in our supply chains.

As an example, we have supported a global programme to develop common protocols to ensure interoperability of traceability systems used for seafood.

This represents a material shift in fostering a sustainable and healthy ocean.

Sustainability Reporting

We publicly report, and are benchmarked, in the following areas;

- Animal Welfare through the Business Benchmark on Farm Animal Welfare
- Carbon footprint and deforestation through the Carbon Disclosure Portal

Improved **CDP Climate** score from C to B and received an A- in supplier engagement

CDP DISCLOSURE INSIGHT ACTION

Transparency objectives

Objective	How we are achieving it
We will include a climate change impact assessment (using the TCFD framework) in our 2020 report	We will expand our existing risk assessments on physical impacts on our operations to include the potential impacts, both positive and negative, from climate change mitigation. This will be done using expert advice, our market and consumer insight knowledge, and alignment with our customers' assessments.
To have fully interoperable seafood traceability systems from boat and farm through each step of the supply chains	Support implementation of the seafood traceability protocols created through the Global Dialogue for Seafood Traceability.
To be able to collate environmental and welfare data from our suppliers. To drive continuous improvement and report progress	In partnership with Foods Connected we are creating a data platform that suppliers can utilise to report relevant data and metrics.

Animal health and welfare

At Hilton our customers expect us to take animal welfare seriously when sourcing their products. We have set out our thinking on animal welfare in our Animal Welfare Policy, which was updated in July 2019. It applies to all species, in all markets, however we recognise that the different markets in which Hilton Food Group operates are at different stages in their development and implementation of animal welfare standards. This allows us to share learnings across the Group and across geographies.

At Hilton animal welfare is integral to our business strategy as recognised by the Business Benchmark for Farm Animal Welfare who have elevated us to tier 2 in latest report building on our highest new entrant status last year.

We use a combination of welfare standards and outcome measures to assess animal welfare. These allow us and our suppliers to demonstrate improvements and benchmark best practice.

We are involved in a number of industry working groups to influence the progression of animal welfare including the European Roundtable on Sustainable Beef and Global GAP standards committee.

Antimicrobial resistance is a real and significant health threat, so we ensure that antibiotics are used responsibly in our supply chains as a last resort when no other course of treatment is viable. We are active members of the Food industry Initiative on Antimicrobials, where retailers, food service and food production companies are coming together to create common commitments.

We work with our suppliers and retail partners to progress our animal welfare standards and encourage innovation, for example we are working with the Centre for Innovation in Livestock. Last year Hilton Seafood UK worked with Global Gap and Tesco to develop new aquaculture standards to improve health and welfare standards in our farmed fish supply base. We have commissioned the world's first electrical stunner for farmed prawns.

Sustainability report
continued

In 2019 we published our Animal Welfare Statement. In this we detailed our eight animal welfare objectives along with our progress against them.

1. No animals from cloned stock or subjected to genetic engineering.
2. Animals are free from confinement.
3. Animals are provided with environment enrichment that promote species' natural behaviour.
4. Animals are free from routine painful procedures. Where procedures are deemed necessary, appropriate anaesthetic and pain relief are used.
5. No routine use of antibiotics.
6. Travel times are kept to a minimum.
7. All animals and farmed fish are effectively stunned prior to slaughter.
8. All slaughter facilities and farms in major markets are certified to recognised farm animal welfare standards.

Electrical stunning of farmed fish and shellfish

The Hilton Seafood aquaculture team were recently featured in a Compassion in World Farming report on how we worked together with Tesco and our suppliers to introduce humane stunning of seabass and bream in Turkey. We took them to see how we utilised an innovation from the salmon farming industry, a dry electrical stunning system produced by Optimar. The normal method for bass and bream was rapid chilling in ice slurry, but this does not give an effective instant stun.

This project was part of our goal to achieve 100% humane slaughter of all of our aquaculture species.

The proven benefits of electrical stunning are:

– Improved animal welfare as they are pumped in water up to the point of stun;
– Better product quality due to lower pre-slaughter stress and less handling;
– Faster processing speed;
– Easier to operate;
– Lower labour requirements; and
– Improved health and safety on board harvest vessels, especially during bad weather.

This innovation has led to welfare improvement for millions of fish per year as the technology is now used to slaughter 100% of the fish they produce.

Animal health and welfare objectives

Objective	How we are achieving it
Encourage innovation and the adaption of best practice that improves the lives of animals	Data led approach driven by outcome measures; with business insight to understand how we can support supply chains.
Ensure responsible antibiotic use throughout our supply chain	Work through the Food Industry Initiative on Antimicrobials in the UK to ensure consistent approach in the UK. Map each supply chain to understand the current approach and share leanings across our supply chains.
Lead in the development and implementation of humane slaughter of fish and shellfish in aquaculture	Optimar developed an electrical stunning system for aquaculture, initially focused on the salmon industry where it has been utilised by many of our suppliers. We have brought this technology to our sea bass and sea bream supply chains, which was verified by Compassion In World Farming "CIWF".

Hilton have moved up to Tier 2 in the global Business Benchmark for Animal Welfare

Ethical supply chains

Hilton promotes the principle of non-negotiable ethics and uses collaborative action to improve the lives of workers across our supply chains. We have strong ethical objectives built into our new strategic framework alongside our Group ethical policy and guidelines.

We are conducting risk assessments utilising the most accurate and detailed industry information available. We are actively engaged in the development of global ethical risk assessment processes, as A/B members of Sedex (a global ethical data and audit platform) and as an elected member of the strategic advisory group to the board of the UK Food Network for Ethical Trade "FNET". We are integrating these risk assessments into the Foods Connected platform that we use to house all of our suppliers' information and shared specifications.

To have good visibility of our suppliers' standards we use tools like Sedex to link what is often several tiers of supply chains to ourselves and our customers. We use collaborative forums to work together to tackle ethical issues in supply chains and share best practice on ethical recruitment. Hilton have helped to initiate a number of such programmes to assure the ethical integrity of our supply chain.

Risk assessments

- Utilising the Sedex platform to link suppliers through the tiers of our supply chains to our sites
- Building risk assessments, which may will lead to further work with our suppliers such as visits or audits
- Where the tools were not in place we have helped fund their development such as the Sedex Fishing Vessel Ethical Questionnaire

Sedex

Audits and investigations

Commissioning audits by independent third party specialists. The standards they use include SMETA (developed by Sedex) for factories and farms, and the Responsible Fishing Vessel Standard for fishing vessels that we have helped to develop as board and standards committee members.

- We are commissioning Human Rights Impact Assessments in partnership with our customers

Collaboration

- We co-ordinate and lead the responsible recruitment working group within the UK Food Network for Ethical Trade "FNET"
- We are founder members and the first chair of the UK Seafood Ethical Action Alliance (SEA Alliance) alongside our key customers and other seafood companies
- We are engaging in industry ethical forums such as the SEDEX conference, and the Seafish Ethical Common Language Group
- We uphold and apply the principles of the Stronger Together initiative in tackling Modern Slavery in our supply chains. We publish our Modern Slavery statement annually

Ethical supply chains objectives

Objective	How we are achieving it
All key suppliers to have agreed to comply with Hilton minimum standards and completed Hilton (or SEDEX) ethical declarations	Provide key suppliers with Hilton minimum ethical standards and request compliance. Assure suppliers have completed either Hilton or Sedex SAQ.
Independent ethical risk assessment of highest risk supply chains	Using third party independent risk analysis, draw up risk rating for key suppliers and develop plan for further engagement where necessary in order for suppliers to meet Hilton ethical standards.
Conduct human rights impact assessment in accordance with OXFAM guidelines in Vietnamese farmed prawns	The assessment is being conducted in partnership with Tesco and our suppliers in Vietnam. We will use its outputs to guide further engagement. Assess result for further engagement and publish summary report in public domain.

We have commissioned our first Human Rights Impact Assessment within our Vietnamese Farmed prawn supply chain in collaboration with Tesco.

Sustainability report
continued

Consumer health innovation

Our consumer insights show that there is a shift in consumption amongst proteins and an increasing demand for food that is both healthy for them and healthy for the planet.

Social consciousness and through it, sustainability, is growing in importance to consumers when making decisions about their lives, food and grocery shopping. This heightened awareness is creating a demand for retailers to make changes, offer sustainable and healthy alternatives, and educate consumers on those solutions. It is clear to see that the speed of change is getting faster but it must gain more momentum and the consumer is waiting.

The definition of sustainability is evolving to include the entire product lifecycle. Collaboration is required across all participants in the product lifecycle to ensure sustainability opportunities are maximised to achieve a circular approach.

The need for dietary shifts worldwide is made clear with the rising challenge of obesity and public health concerns, and the gap between recommended dietary choices and actual consumption. It is critical to bridge the gap between theory and practice in dietary choices through better information – a credible communication platform providing facts about food to consumers to support in making healthy food choices in line with dietary recommendations.

Consumers want to make ethical and sustainable choices but only if their other needs are being satisfied. It is a balance of value, convenience and choice. We have to view sustainable solutions through the lens of convenience as this is driving the greatest gap of what we would like to do and what time we have to do it.

Healthy for me,
Healthy for the planet

Consumer health innovation objectives

Objective	How we are achieving it
To provide consumers with a choice of healthy proteins so that they can balance their consumption	By sector leading product innovation in all of our markets supported by responsible sourcing strategies for each protein to ensure that they all have solid sustainability credentials.
To collate Life Cycle Assessments for each of our major proteins	Collate Life Cycle Analysis "LCA" studies of all of our major proteins and, where required, work with suppliers to carry out additional studies to further understand their environmental status. To give a balanced view of the contribution of these proteins in a diet that is great for us and great for the planet.

Approval of Strategic report

Pages 4 to 49 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
6 April 2020

Governance Report

In this section

For more information visit:
www.hiltonfoodgroupplc.com

Board of Directors

Executive Directors

Robert Watson OBE
Executive Chairman

Robert joined Hilton as Chief Executive in 2002 and transitioned to Executive Chairman in 2018.

Skills and Experience: Robert has overseen the successful growth of the Group to date. Prior to Hilton, 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. Having garnered over 40 years' experience in the meat industry, Robert has proven himself as an industry leader, and brings his wealth of experience and valuable skills as Executive Chairman of the Board. Robert is Chairman of the Nomination Committee.

Philip Heffer
Chief Executive Officer

Philip joined Hilton at its inception in 1994, as Managing Director of the Group's UK subsidiary and from 2012 to 2018, served as Hilton's Chief Operating Officer. He was promoted to Chief Executive Officer on 1 July 2018.

Skills and Experience: Prior to Hilton, 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. Philip is responsible for developing Hilton's businesses with its major customers. His in-depth knowledge and experience of the meat industry provides valuable contribution to the Board.

Nigel Majewski
Chief Financial Officer

Nigel was appointed Chief Financial Officer of Hilton in 2006,following 11 years in senior finance roles with PepsiCo.

Skills and Experience: Nigel gained financial experience within UK and European markets, having served most recently at his time with PepsiCo as CFO of the company's European business, and prior to this, as Finance Director for Pepsi-Cola General Bottlers, Poland. Nigel also gained extensive meat industry experience in senior finance roles with Bernard Matthews plc, including as Commercial Director of the company's then newly acquired poultry company based in Hungary. He has also worked for Royal Dutch Shell and Whitbread and Co. He is a qualified Chartered Accountant and has a first class honours degree in accountancy. Nigel is Chairman of the Risk Management Committee.

Non-Executive Directors

1. John Worby
Non-Executive Director

John joined Hilton as an independent Non-Executive Director in 2016.

Skills and Experience: John 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 is currently a Non-Executive Director at Carr's Group plc where he chairs the Audit Committee and formerly was a Non-Executive Director at Fidessa Group plc, Cranswick plc, and Connect Group plc. He is also a member of the Financial Reporting Review Panel. With his considerable financial/accounting and executive experience, John brings invaluable skills to the Board. John's listed company knowledge within the food sector is beneficial to his role as Chair of the Audit Committee and as a member of the Board. He is the Senior Independent Director.

2. Christine Cross
Non-Executive Director

Christine joined Hilton as an independent Non-Executive Director in 2016.

Skills and Experience: Christine was originally a food scientist before devoting 14 years to 2003 with Tesco in senior roles focusing on own brand, non-food and global sourcing. She brings a wealth of global experience with a wide range of food and non-food retailing businesses to the Board, as she currently holds Non-Executive Directorships with Coca-Cola European Partners plc, zooplus AG (Germany) and several private companies as well as numerous advisory roles. Former Non-Executive Director positions include Sonae SGPS SA (Portugal), Next plc, Woolworths Limited (Australia), Brambles Limited (Australia) and Kathmandu Holdings Limited (New Zealand). Christine is Chair of the Remuneration Committee.

3. Angus Porter
Non-Executive Director

Angus joined Hilton as an independent Non-Executive Director in 2018.

Skills and Experience: Angus has held numerous executive and non-executive roles across a range of industry sectors including Mars, BT, Abbey National and WPP. Angus is currently Non-Executive Chairman at McColl's Retail Group plc and Co-Chairman of Direct Wines Ltd and was formerly Chief Executive of the Professional Cricketers' Association, Non-Executive Director and Senior Independent Director of Punch Taverns plc and Non-Executive Director of TDC A/S (Denmark). Angus' extensive knowledge and experience in public companies and the food and retail sectors are valuable to the decisions of the Board. He has an MA in natural sciences and PhD from the University of Cambridge.

4. Rebecca Shelley – appointed 1 April 2020
Non-Executive Director

Rebecca has recently joined Hilton as an independent Non-Executive Director.

Skills and Experience: Rebecca has held market-facing investor relations and corporate communications roles at a number of listed companies. She was Group Communications Director and a member of the Executive Committee at Tesco plc and more recently was Global Corporate Affairs Director at TP ICAP plc. Her previous experience includes roles at Norwich Union plc, Prudential plc and as a partner at Brunswick LLP. She was also on the Board of the British Retail Consortium and a Trustee of the Institute of Grocery Distribution. Rebecca is currently a Non-Executive Director at Sabre Insurance Group plc and a Trustee of the Game and Wildlife Conservation Trust. She has a BA (Hons) in Philosophy and Literature from the University of Warwick and an MBA in International Business and Marketing from Cass Business School.

Neil George
Company Secretary

Neil joined Hilton in 2007 and is a Chartered Accountant.

John Worby, Christine Cross, Angus Porter and Rebecca Shelley are all members of the Remuneration, Audit and Nomination Committees.

John Worby, Christine Cross Angus Porter and Rebecca Shelley are considered to be independent.

Directors' report

The Directors present their report together with the audited financial statements for the 52 weeks ended 29 December 2019. Reference to other relevant information incorporated into this report is below.

Strategic report

The Strategic report on pages 4 to 49 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 22.

This Strategic report also includes the Sustainability report on pages 28 to 48 which contains details of the Group's employment practices and greenhouse gas emissions.

A Section 172(1) statement which sets out how directors have had regard to the matters under s172 of the Companies Act 2006 is also included in the Strategic report.

Corporate governance and other statutory disclosures

The Corporate governance statement, Board Committee reports and Directors' remuneration report on pages 56 to 78 includes information required by DTR 7.2.

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

Non-Financial Reporting Directive

The EU Non-Financial Reporting Directive has been implemented into English law and requires companies to disclose non-financial information necessary to provide investors and other stakeholders with a better understanding of a company's development, performance, position and impact of its activity.

Principal activities

The Group is the leading specialist international food packing business.

Results and dividends

The profit before income tax is £43.2m (2018: £43.3m).

An interim dividend of 6.0p per ordinary share was paid in November 2019. The Directors recommend the payment of a final dividend for the period which is not reflected in these financial statements, of 15.4p per ordinary share totalling £12.6m, which, together with the interim dividend, represents 21.4p per ordinary share for the year. Subject to approval at the Annual General Meeting, the final dividend will be paid on 26 June 2020 to members on the register at the close of business on 29 May 2020. Shares will be ex dividend on 28 May 2020.

The table below sets out where stakeholders can find information in our Strategic report relating to non-financial matters.

Information requirement	Where to read more	Page
Business Model	Our business model	11 – 14
Principal risks	Risk management and principal risks	24 – 27
Non-financial KPIs	Key performance indicators	21
Environment	Sustainability report	28 – 48
Employees	Sustainability report	28 – 48
Human rights	Sustainability report	28 – 48
Social matters	Sustainability report	28 – 48
Anti-bribery and corruption	Sustainability report	28 – 48

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
Aberdeen Standard Investments	8,993,936	11.00%	Indirect
Fidelity Management & Research	8,131,728	9.95%	Indirect
Santander Asset Management	3,145,267	3.85%	Indirect
Capital Research Global Investors	3,012,710	3.69%	Indirect
Kames Capital	2,969,905	3.63%	Indirect
G. Heffer	2,811,577	3.44%	Direct
R. Heffer	2,626,500	3.21%	Direct
Canaccord Genuity Wealth Management	2,604,391	3.19%	Indirect

Additionally Directors' interests in shares total 7.65% and details are given on page 75.

Directors and their interests

The Directors of the Company in office throughout 2019, together with their biographical details, are set out on pages 52 and 53. All the Directors served for the whole of the year under review unless stated. Rebecca Shelley joined the Board on 1 April 2020. Details of Directors' interests in shares are provided in the Directors' remuneration report on page 75.

Directors are subject to reappointment at the Company's AGM following the year in which they are appointed. Following accession to the FTSE 350 Index, all Directors retired and were re-elected at the 2019 Annual General Meeting and will in future retire and stand for election or re-election, as appropriate, at each Annual General Meeting. The Board has proposed a resolution for shareholder approval at the Annual General Meeting to amend the election and re-election of the Directors in the Company's Articles of Association, in order to bring this in line with the provisions of the UK Corporate Governance Code relating to FTSE 350 companies.

Directors' indemnities

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

Political donations

No donations for political purposes were made during the year (2018: £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 21 May 2019:
  - Directors have authority to resolve that the Company shall 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 21 August 2020 or the next Annual General Meeting at which renewal of these authorities will be sought.
- 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 52 and 53. 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
6 April 2020

Corporate governance statement

The UK Corporate Governance Code

The Financial Reporting Council issued a revised UK Corporate Governance Code in July 2018. The revised Code (the "Code") emphasises the requirement for boards to adopt a longer-term approach when considering issues and making decisions, and to continue to ensure active and effective stakeholder engagement. The Board has prepared this report with reference to the Code which applies to accounting periods beginning on or after 1 January 2019. The provisions of the Code can be obtained from www.frc.org.uk/corporate/ukcgcode.cfm.

This Corporate governance statement combined with the Board Committee reports and the Directors' remuneration report on pages 56 to 78 detail how the Board applies the principles of good governance and best practice as set out in the Code.

The Directors consider that the Company has complied with the provisions of the Code during 2019,with the exception of the following:

- In 2018, Robert Watson transitioned from Chief Executive to Executive Chairman. Provision 9 of the Code states that a chairman should be independent on appointment and that a chief executive should not go on to become chair of the same company. Robert's transition does not follow this provision. The Code's provisions also state that if exceptionally a board decides that a chief executive should become chairman, the board should consult major shareholders in advance and should set out its reasons to shareholders at the time of the appointment and also publish these on the company website. The Directors believe that there were exceptional circumstances and accordingly major shareholders were consulted in advance of the appointment. These circumstances, which have been published on the Group website, are also detailed later in this section.
- Provision 19 states that the chair should not remain in post beyond nine years from the date of their first appointment to the board. Robert joined the Hilton Board in 2002.

The Board

Membership

At the date of this report the Board consists of three Executive Directors and four Non-Executive Directors whose names, responsibilities, brief biographies and membership of Board Committees are set out on pages 52 and 53. The Directors bring strong judgement and expertise to the Board's deliberations and with diversity achieves a balance of skills and experience appropriate for the requirements of the business.

Executive Chairman

On 1 July 2018 Robert Watson transitioned from Chief Executive to Executive Chairman of Hilton Food Group plc. The Board considered this change to be in the best interests of the Company, and consulted major shareholders ahead of the appointment who were supportive of the change. Reasons for this change were set out in the Company's 2018 Annual Report and are replicated below:

- Given Robert's experience, and the level of recently won new business coming on stream over the next few years, the Board is unanimous that it is in Hilton's best interests for Robert to remain within Hilton Food Group initially in an executive capacity;
- Robert will work to integrate the Australian business where in 2018 we took over operational control of two plants in Bunbury and Truganina as part of an agreement to restructure our joint venture agreement there which will complete in 2020 following a two year transition period. Additionally we are building new plants in Brisbane and New Zealand due to open in 2019 and 2020 respectively; and
- Robert will also focus on new business development in new territories and new product categories.

Following Robert's transition a resolution at the Company's 2019 Annual General Meeting received a significant number of votes against his re-election. The Board has since consulted with major shareholders and understand their concerns related to Robert's transition to Executive Chairman and the balance of the Board. The Board will continue to consult with shareholders. However the Board believes that it is important to retain Robert's knowledge and experience within the business at the current time. Furthermore the Board has appointed Rebecca Shelley such that it now comprises a majority of independent Non-Executive Directors.

The Board recognises Robert's long tenure since he was first appointed to the Board in 2002 as Chief Executive. The Board believes that he has demonstrated, and will continue to demonstrate, objective judgement, and considers his continuing tenure to be in the best interest of the Company. The results of the recently completed external Board evaluation concluded that the retention of Robert Watson as Executive Chairman has not only sustained shareholder value but proved an effective "learning" environment for Robert and Philip Heffer as Chairman and new CEO, respectively.

Finally it has been agreed by the Board that Robert will become Non-Executive Chairman by the end of 2020, following the completion of the joint venture transition period.

Division of responsibilities of the Chairman and Chief Executive

There is a clear written division of responsibilities between the Executive Chairman and the Chief Executive which has been agreed by the Board. Although these responsibilities are clearly defined, our Chairman and Chief Executive maintain a close working relationship split between running the Board and the business. Working together with the Board, they are responsible to our shareholders for the successful delivery of our strategy. They speak regularly between Board meetings to ensure a full understanding of evolving issues and to facilitate swift decision making.

Non-Executive Directors

The Non-Executive Directors, including the Senior Independent Director, are considered to be independent all having served on the Board for less than five years. 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.

The Non-Executive Directors met once during the year specifically to scrutinise the performance of the Executive management. A further meeting was held without the 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 Executive Chairman, Chief Executive Officer and Chief Financial Officer. He ensures that he is available to meet shareholders, as required, and reports any relevant findings to the Board.

New appointment

On 28 February 2020, the Company announced the appointment of Rebecca Shelley to the Board, as an independent Non-Executive Director, with effect from 1 April 2020. Rebecca brings a wealth of experience in market-facing investor relations and corporate communications, gained since 1998 from roles with various listed companies, including Norwich Union plc, Prudential plc, Tesco plc and TP ICAP. More information on Rebecca's experience can be found on the Company's website www.hiltonfoodgroupplc.com/about-us/board-directors.

Board balance

The recent appointment of Rebecca Shelley, as an additional Non-Executive Director, has increased the balance of independent Non-Executive Directors on the Board from 50% to 57%, comprising three Executive Directors (including the Executive Chairman) and four independent Non-Executive Directors. Additionally female representation on the Board has increased from 17% to 29%.

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. Following accession to the FTSE 350 Index all Directors retired and were re-elected at the 2019 Annual General Meeting, and will, as appropriate, retire at each Annual General Meeting of the Company.

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 interest. 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. The Board considers that the Directors' powers of authorisation of conflicts have operated effectively and that the procedures set out above have been properly followed.

In its 2018 Annual Report, the Company reported that it had identified a conflict of interest involving Hilton's CEO, Philip Heffer, in relation to the acquisition, by the Company, of SV Cuisine Limited (formerly HFR Food Solutions Limited), a UK based sous vide manufacturer. Prior to the acquisition, Philip was a shareholder in SV Cuisine and was also a director of the company. The Group reported that appropriate procedures had been properly followed in dealing with this conflict of interest, which included Philip not voting on any matters relating to the acquisition and having no involvement in the negotiations. There is an ongoing conflict of interest as the transaction involves deferred consideration, the value of which is dependent on future performance of the business, payable three years after completion. In light of this, since the transaction concluded on 28 February 2019, Philip is no longer a director of SV Cuisine and is not directly involved in its management.

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 long-term sustainable 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.

Corporate governance statement
continued

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

- changes to capital structure;
- 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:

- Audit Committee;
- Remuneration Committee;
- Nomination 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 the Audit, Remuneration and Nomination Committees are included on pages 61 to 78. The Risk Management Committee is chaired by the Chief Financial Officer and includes representatives from across the business. The Committee meets at least four times per year and 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. Its work is overseen by the Audit Committee and reports to the Board.

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	8	100%
Philip Heffer	8	100%
Nigel Majewski	8	100%
John Worby	8	100%
Christine Cross	8	100%
Angus Porter	8	100%

Company culture and purpose

The Company has a clear purpose aimed at creating value for its stakeholders, based on its ethos of "growth through total partnership", which also contributes to the wider society. The Group aims to achieve this by establishing clear values which align with its purpose and strategy, whilst maintaining a culture that combines the Group's entrepreneurial drive with a strong client and talent focus.

Performance evaluation

The last external evaluation process was conducted in 2011/12. In light of the Company's inclusion in the FTSE 350 Index the Board considered it appropriate to perform an external performance evaluation during the year. Following a formal selection process Advance Boardroom Excellence Ltd was chosen to carry out the review who were verified as being independent. The process comprised an initial short questionnaire followed by an interview with each Director and the Company Secretary as well as a sample of members of the executive leadership tier below the Board. There was also access to Board and Committee papers and information enabling a documentation review.

A summary of the AB Excellence board effectiveness benchmark report conclusions that the Board continues to operate effectively and in particular:

- Hilton has a very capable and experienced Board with an excellent and experienced executive team who know the business inside out
- Progress to date has been impressive both in business and governance terms
- The retention of the former CEO as the Executive Chairman has not only sustained shareholder value but proved an effective 'learning' environment for the Chairman and the new CEO
- The Group's progress has been guided by a small group of very experienced Non-Executive Directors
- The Board is becoming more future focused as it develops, while retaining a nimble and entrepreneurial approach

Recommendations are centred around the continuing development of the Company's governance framework to meet the appropriate standards for a FTSE 350 company as it continues its impressive growth record with an increasing investor profile. Key themes from the review include i) earlier Board involvement in strategy development, ii) better use of the knowledge and expertise of the Non-Executive Directors and their deeper engagement into the executive pipeline, iii) further shaping of Board information to facilitate Board debates and discussions and iv) increased Board engagement with the Company's culture and stakeholders as the Company's international presence increases. A process is in place to monitor progress against these recommendations.

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 24 to 27.

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. 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. These have been reviewed and discussed through the Risk Management Committee and by the Audit Committee and their financial implications and the effectiveness of the control processes in place to mitigate these risks have been assessed. 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.

Directors' duties and stakeholder engagement

Section 172 of the Companies Act 2006 requires company directors to act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

- the likely consequences of any decision in the long term;
- the interests of the company's employees;
- the need to foster the company's business relationships with suppliers, customers and others;
- the impact of the company's operations on the community and the environment;
- the desirability of the company maintaining a reputation for high standards of business conduct, and;
- the need to act fairly as between members of the company.

The Directors ensure that the views of the Company's key stakeholders are known and fully considered during their discussions and decision-making. Proposals submitted to the Board on all significant decisions include a section that assesses the potential impact on its stakeholders and their interests. This is intended to guide Board discussions to ensure that these interests are adequately considered when decisions are made to approve business projects and the Company's strategy.

Our Shareholders

The Board promotes open communication with its shareholders. We aim to provide transparent, clear and balanced communications so that they understand our business strategy and how we deliver long term shareholder value through earnings and capital growth. The Executive Chairman, 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 4 to 49. 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 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

Our customers and suppliers

The Board and senior management engage with our customers and suppliers through an established total partnership strategy to discuss and reach agreements on product quality and payment terms, address concerns, identify risks, suggest solutions and demonstrate best practice.

Our customers comprise high quality food retailers based in Europe and Australasia. We create long-term partnerships with these retailers which are key drivers of the Company's growth and continued success. Through these established partnership arrangements we are able to successfully deliver safe, high quality products, competitively priced ensuring the highest level of customer satisfaction. We communicate with our customers every day to gain an in depth understanding of their, and their consumers', needs and expectations, and the markets within which they operate.

We work closely with local and international suppliers, as part of an integrated food supply chain, which enables us create effective partnerships that combines our knowledge of industrial-scale food production and consumer needs and expectations with their expertise in the supply of sustainable and innovative raw materials. Our products are governed by national legislation and food safety standards throughout the supply chain. We hold regular dialogue with our suppliers on governance and compliance matters, including human rights and modern slavery. Further details on how we engage our suppliers on these matters can be found in the Sustainability report on pages 28 to 48.

Our people including workforce engagement

The Board recognises the value its employees contribute to the Company's sustainable long-term success, which is why the Group is committed to engaging with its workforce to discuss employee interests and concerns, as well as identify and develop talent within the Group. The Code provides that "The board should ensure that workforce policies and practices are consistent with the company's values and support its long-term sustainable success. The workforce should be able to raise any matters of concern." The Company aims to extend its workforce engagement practices throughout the Group. Some of the workforce engagement mechanisms established to date are set out below.

- The appointment of a designated Non-Executive Director, by the Board, to head the Group's workforce engagement procedures. Angus Porter works closely with the Group and key personnel to ensure the Group's engagement practices in relation to its employees are appropriately monitored;
- Establishment of a workforce engagement survey to capture the views and opinions of the workforce regarding how they feel about working in the Group, and the support they receive;
- Induction programmes for new employees;
- Introduction of Group internal App, "MyHFG", which is an information and communication resource, and provides a platform for employees to participate in employee surveys;
- Hosting of leadership conference and town halls within the year, to provide forums for talent development and opportunities for the Board and senior management to engage with the workforce in a more relaxed setting;
- The establishment of value awards programmes, such as "Hilton Heroes" across the Group to identify and reward dedication and talent within the workforce; and
- Employee forums with a view to strengthening the 'employee voice' within the Group.

Further measures include understanding reasoning behind emotive employee survey responses, establishing better communication and information flow locally amongst the business divisions and improving teams' working together and manager feedback.

The Board has assessed the above engagement mechanisms and corrective actions and is satisfied that these are aligned with the Company's purpose, values and strategy.

Community & environment

Hilton seeks to be a good neighbour in all its locations and is committed to social responsibility built through the relationships we build with our communities and legitimate public interest groups. Further details on how we engage with the community and on environmental matters can be found in the Sustainability report on pages 28 to 48.

By order of the Board

Neil George
Company Secretary
6 April 2020

Report of the Audit Committee

I am pleased to report on the activities of the Audit Committee for the 52 weeks ended 29 December 2019.

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, the other Independent Non-Executive Directors, Christine Cross and Angus Porter. 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 Executive Chairman, Chief Executive Officer, 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;
– providing advice (where requested by the Board) on whether the annual report and accounts, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy;
– 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;
– conducting the tender process and making recommendations to the Board, about the appointment, reappointment and removal of the external auditor, and approving the remuneration and terms of engagement of the external auditor;
– to review and monitor the external auditor's independence and objectivity;
– reviewing the effectiveness of the external audit process, taking into consideration relevant UK professional and regulatory requirements;
– to develop and implement policy on the engagement of the external auditor to supply non-audit services, considering the impact this may have on independence, taking into account the relevant regulations and ethical guidance in this regard, and reporting to the Board on how it has discharged its responsibilities;
– 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	4	100%
Christine Cross	4	100%
Angus Porter	4	100%

How the Committee has discharged its responsibilities

During 2019 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 Committee reviewed the half and full year financial reports including the application of accounting policies, estimates and judgements in their preparation and, the clarity and completeness of the disclosures. The Committee also held discussions with management and the external auditor and reviewed supporting papers in respect of these matters.

The key areas of focus and significant issues considered during the year were:

– a review of revenue recognised on the Group's major contracts. The external auditor identified complex customer arrangements as an area of audit focus and the Committee fully considered these issues, including a review of customer balances in relation to these contracts at the year end. The Committee concurred with these balances. 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 relation to these contracts;
– a review of the accounting for the SV Cuisine acquisition including the value placed on intangible assets and the level of estimated deferred consideration. The Committee reviewed and concurred with the calculations and underlying assumptions made;
– a review of segmental reporting. In the light of the growth in profits and assets in Australasia, the Committee concurred that it was appropriate to show this business as a separate segment;
– a review of accounting developments. The Committee reviewed the impact of new IFRS standards effective in the year. IFRS 16 Leases was applied using the modified retrospective approach and, as permitted by transitional provisions, 2018 comparatives have not been restated. The impact of the new standard was an increase in total assets and total liabilities of £138,877,000. The Committee reviewed a summary of capitalised leases and their impact on the income statement and considered the reasonableness of the judgements made. The Committee concurred with the treatment and disclosures made;

Report of the Audit Committee
continued

- an assessment of the Group's cost plus contracts in relation to IFRS 16 (formerly IFRIC 4) to determine whether they contain a lease. The Committee particularly focused on new contracts entered into during the year. As in previous years the Committee remains comfortable that there are no such implied lease arrangements; and
- a review of the impact of Covid-19 on the business and its projected cash flows. The Committee considered the impact of potential sensitivities on the Group's cash flows and calculated that the statements made in relation to going concern and the Group's viability were appropriate.

The Committee was satisfied that 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 Chief Financial Officer relating to going concern and the Group's longer term viability and concluded that the Group should be considered as a going concern. The proposed disclosures relating to the Group's longer term viability were agreed.

Thereafter the Committee recommended that the Board approve these financial reports for publication and that the letter of representation to the external auditor be signed.

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 Committee noted the findings from the work done and agreed the internal audit plan for the year ahead. The Committee was satisfied that the internal audit function had been effective in completing its work during the year.

The Committee received regular updates on risk management including changes to the assessments of risks and consideration of emerging risks. The Committee also reviewed the work done by the Risk Management Committee and the updated Risk Register. At the end of the year, the Committee considered a report from the Head of Internal Audit on the effectiveness of the risk management and internal control systems. Based on the report and its work done during the year, the Committee concluded that the Group's internal control and risk management systems were operating effectively.

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 auditor. EU Regulation enacted into UK law 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. The current external auditor, PricewaterhouseCoopers LLP (PwC), were appointed in 2007 and reappointed in 2016 following a public audit tender process. During the year a new audit partner took over responsibility for the audit in accordance with PwC's policy that the lead partner is rotated every five years to ensure continued objectivity and independence. The next rotation is due in 2024. The engagement partners on key components are also required to rotate every five years.

Meetings were held with the external auditor before the audit to agree their audit plan and fees and after their half year review and year end audit work to discuss their key findings.

PwC 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 periodic quality control reviews. Potential independence threats through the provision of non-audit services are mitigated through various safeguards.

After the conclusion of the audit, the Committee reviewed the effectiveness of the audit including PwC's performance based on a questionnaire completed by members of the Committee and key finance staff. The conclusion was that the audit had been effective.

The Committee continues to be satisfied with the independence and performance of PwC and have therefore recommended to the Board that they should be reappointed as the Group's auditor at the forthcoming Annual General Meeting.

Non-audit services and fees

Hilton has implemented a policy on the use of the external auditor for non-audit services designed to preserve the independence of the external auditor. This policy categorises non-audit services into (i) continuing services which the Committee permits the external auditor 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 Committee reviewed and updated this policy.

The level of non-audit fees was reviewed which in 2019 at £73,000 (including £46,000 for work in connection with the half year review) represents 15% of audit fees in the year and an average of 55% over three years which compares with the 70% EU cap which applies from 2020. Excluding items required by EU or national legislation, the 3-year average of non-audit fees was 8% of audit fees. Further details of audit and non-audit costs can be found in note 6 on page 104. The Committee considers that the level of non-audit fees does not affect the independence of the external auditor.

Other

The Committee reviewed its terms of reference. The review of the effectiveness of the Committee was undertaken as part of the external Board evaluation undertaken in the year. The whistle-blowing and anti-bribery/anti-corruption policies were reviewed. Meetings were held with both the external and internal auditors without management present.

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
6 April 2020

Report of the Nomination Committee

Chairman's introduction

I am pleased to report on the activities of the Nomination Committee for the 52 weeks ended 29 December 2019.

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

The Committee is chaired by the Executive Chairman of the Board. The three Independent Non-Executive Directors are the other members of the Committee who therefore comprise the majority.

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 and its Committees which should have a combination of skills, experience and knowledge;
- to promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths;
- to give consideration to succession planning for Directors and other senior executives and identify appropriate candidates for the approval of the Board;
- to make recommendations to the Board with regard to any changes and 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
Robert Watson	3	100%
John Worby	3	100%
Christine Cross	3	100%
Angus Porter	3	100%

How the Committee has discharged its responsibilities

During 2019 the Committee met three times and considered a range of topics including resource and succession planning.

The Committee considered the continuing evolution and composition of the Board including succession planning. In order to maintain a strong and well-balanced Board the Committee considered and recommended the appointment of a further Independent Non-Executive Director. Desirable attributes for potential candidates included experience in the food, retail and international sectors, potentially an existing CEO and having the capacity to give the necessary time commitment. The Company developed a strong shortlist of candidates with the assistance of its existing advisors reserving the option of using external search consultants or open advertising. Following interviews with all Board members and discussions with previous employers the Committee recommended to the Board that Rebecca Shelley be appointed. Following her commencement on 1 April 2020 the balance of the Board independence has increased from 50% to 57% and Board gender diversity from 17% to 29%.

Hilton is an inclusive business and we ensure that we give equal access to all opportunities. Our approach supports diversity which is overseen by the Committee. The gender balance of those in senior management and their direct reports in the year was 23%.

We continue to develop management structures to promote its talent pipeline as part of a succession planning process covering the Directors and senior management positions to enable, where possible, recruitment of vacant positions from internal candidates. Accordingly processes are in place 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. Given the growth in business categories and geographies, the Committee continues to monitor the planning of resource implications. The Chairman has discussions with each Director to review and agree their training and development needs.

The Committee reviewed the results of the external Board evaluation (see page 58) which supported the move of Robert Watson to Executive Chairman and the planned appointment of an additional Non-Executive Director.

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

Robert Watson OBE
Chairman
6 April 2020

Directors' remuneration report

Annual Statement

Dear Shareholder,

On behalf of the Board I am pleased to present the Directors' remuneration report for the 52 weeks ended 29 December 2019. 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 2018 UK Corporate Governance Code (the 'Code') and the Financial Conduct Authority Listing Rules (the 'Listing Rules').

2019 was another strong year with the Group delivering significant adjusted operating profit and earnings per share (EPS) growth of over 12% and 8% respectively. The investment in vegetarian producer Dalco, acquisition of the sous vide business, continued progress in Australia including the opening of our new Brisbane facility were key achievements during the year as well as expanding fish and vegetarian products into additional customers and markets.

Directors' remuneration major decisions and substantial changes

2019 pay outcomes

Hilton's performance continues to be strong. The Company continues to successfully implement its strategy with a wide spread of the Group's operations across Europe and a growing Asia Pacific region which represents a material long term strength. The remuneration policy (the 'Policy') operated as intended in terms of Company's performance and quantum and accordingly no changes were necessary.

Annual bonus

The financial element was subject to the performance in the Group's underlying adjusted profit before acquisition intangible amortisation and tax with the maximum being paid for performance of 5% or more above the target. The actual performance exceeded the target by 5.1% resulting in the maximum financial element bonus of 105% of salary being awarded.

This is augmented by the personal element bonus for the Executive Directors which is calculated by reference to personal objectives which include delivering the strategy, planning for the future, leading the food quality, health and safety and environment agenda, ensuring a culture and talent pipeline and building positive relationships with investors. The Committee's assessment of Executive Director performance was that Robert Watson be paid 20%, Philip Heffer 20% and Nigel Majewski 20% out of a maximum of 20% of salary each for above target performance.

In aggregate a total bonus of 125% of salary is payable in respect of 2019 performance out of a maximum of 125% of salary.

Long Term Incentive Plan

The LTIP award granted in 2017 and due to vest in 2020 was subject to performance against a single measure comprising stretching EPS targets. Threshold performance was set at EPS growth of 6% per annum whereby 10% of the options would vest, rising to EPS growth of at least 14% per annum whereby 100% of the options would vest. Following the end of the three year performance period ended 29 December 2019, compound annual EPS growth of 11.0% was achieved and it is expected that there will be vesting of 66.0% out of a maximum of 100%.

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

2020 implementation

Base salaries

The Committee agreed base salary increases of 2% for Robert Watson, Philip Heffer and Nigel Majewski effective from 1 January 2020 in line with the increase of the general workforce.

Variable pay

The maximum annual bonus opportunity will continue to be capped at 125% of base salary.

The 2020 Executive Director bonus scheme financial element of up to 105% of salary will be measured by comparing targeted performance against the underlying adjusted profit before acquisition intangible amortisation, exceptional items and tax removing any tax implications which are largely out of management's control.

A further strategic element of up to 20% of salary will be available based on individual performance against personal and strategic objectives aggregating to a 125% of salary maximum bonus opportunity for the Executive Directors. Objectives are considered to be commercially sensitive at this point although full disclosure of the targets and performance against the objectives will be provided on a retrospective basis in next year's Directors' remuneration report.

The 2020 LTIP awards for Executive Directors will be maintained at 175% of salary with vesting determined by stretching EPS and relative TSR performance targets.

Activities of the Committee

The Committee's main activities during 2019 (full details are set out in the relevant sections of this report) included:

- Agreeing Executive Director base salary increases for 2019;
- Agreeing annual bonus award levels for 2018 and setting the targets for 2019;
- Reviewing the EPS performance targets and determining the percentage vesting for the 2016 LTIP awards which vested in 2019;
- Approving the LTIP awards granted in 2019;

- Approving the issue of the Sharesave scheme for 2019;
- Engaging with shareholders with regard to the Policy review whose views helped to shape the final Policy that was passed at the 2019 AGM;
- Reviewing the new Code and amendments to the disclosure requirements (including the requirement to disclose a CEO pay ratio); and
- Reviewing the Company's Gender Pay calculations and draft disclosures.

In addition, the Committee has considered how the remuneration policy and practices are consistent with the six factors set out in Provision 40 of the new Code:

Clarity – Our Policy (approved by shareholders in 2019) is understood by our senior executive team and has been clearly articulated to our shareholders and representative bodies (both on an ongoing basis and when changes are proposed).

Simplicity – The Committee is mindful of the need to avoid overly complex remuneration structures which can be misunderstood and deliver unintended outcomes. Therefore, a key objective of the Committee is to ensure that our executive remuneration policies and practices are straightforward to communicate and operate.

Risk – Our Policy has been designed to ensure that inappropriate risk-taking is discouraged and will not be rewarded through (i) the balanced use of annual and long-term pay which employ a blend of financial, non-financial and shareholder return targets; (ii) the significant role played by equity in our incentive plans; and (iii) malus/clawback provisions.

Predictability – Our incentive plans are subject to individual caps, with our share plans also subject to market standard dilution limits.

Proportionality – There is a clear link between individual awards, delivery of strategy and our long-term performance. In addition, the significant role played by incentive/'at-risk' pay, together with the structure of the executive directors' service contracts, ensures that poor performance is not rewarded.

Alignment to culture – Our executive pay policies are fully aligned to our culture through the use of metrics in both the annual bonus and LTIP.

Use of discretion

Under the Code, the Committee has the right to exercise independent judgement and discretion in its assessment of Directors' remuneration, taking account of the performance of the Company, Directors' individual performances and wider circumstances. The Committee did not find any circumstances that warranted the need for them to exercise such discretion during the year.

Looking ahead

The Remuneration Committee is committed to ensuring that the remuneration policy and its implementation remains compliant with all legislative requirements as they come into force, and is aligned with evolving best practice, while continuing to take account of our overarching remuneration philosophy and delivering value to shareholders.

Transparency and equality of pay across all grades, gender and geographies remains a key focus of the business and is a regular item on the Remuneration Committee agenda.

Shareholder consultation and AGM approvals

At our forthcoming 2020 AGM there will be an advisory resolution on the remuneration paid to the Directors in the 52 weeks ended 29 December 2019.
I hope we continue to receive your support in respect of our Annual Report at our forthcoming AGM.

Christine Cross
Chair of the Remuneration Committee

Directors' remuneration report
continued

Directors' remuneration policy

Policy scope
The Policy applies to the Chairman, Executive Directors and Non-Executive Directors.

Policy duration
The current remuneration policy was passed by a binding shareholder vote at the Company's 2019 Annual General Meeting and became effective from the date of that meeting and shall be in place for the next three year period unless a new policy is presented to shareholders before then. This policy reflects the provisions of the 2018 UK Corporate Governance Code effective from 1 January 2019 and other good practice guidelines from institutional shareholders and shareholder bodies. All payments to Directors during the policy period will be consistent with the approved policy.

Overview of 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 shareholders' interests.

The 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.

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
Base 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 base 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 2019 increases as set out in this Remuneration report, increases in 2020 and 2021 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.

Element	Purpose and link to strategy	Operation	Maximum opportunity
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 although the Remuneration Committee will seek to appoint new Executive Directors on workforce aligned provision where this is possible.
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 shares during the vesting period may be payable. Bonuses are subject to malus and claw-back provisions in circumstances of misstatement, error or gross misconduct.	Up to 125% of base salary.

Directors' remuneration report
continued

Directors' remuneration policy 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 will be based on financial (e.g. EPS) and/or share-price related (e.g. relative TSR) performance targets. Performance targets will be determined at the date of grant with up to 10% 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 performance measure. Awards are subject to malus and claw-back provisions for three years following vesting in circumstances of material misstatement, error or misconduct. A two year post vesting holding period will operate for all LTIP awards granted to Executive Directors after the 2019 AGM. 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.	Up to 175% of salary for all Executive Directors.
All employee share schemes	To encourage employee share ownership and thereby increase their alignment with shareholders	All employees are eligible to join any permissible all 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 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 Executive Chairman and Chief Executive Officer and 175% 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).	N/A
Post cessation guidelines		Half of the shareholding guideline requirement will apply for 12 months post-employment.	

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 Executive Chairman and the Executive Directors. The 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 a 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 operates 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. 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;
   - 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;
   - 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; and
   - adjusting the long term incentive vesting outcome if the level of vesting is not considered to be 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

Directors' remuneration policy 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 (providing that 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. 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	John Worby and Christine Cross three years from 23 March 2019 Angus Porter three years from 1 July 2018
Re-election at AGM	Every three years by rotation under the Company's Articles and each year for FTSE 350 companies under the UK Corporate Governance Code	Every three years by rotation under the Company's Articles and each year for FTSE 350 companies under the UK Corporate Governance Code
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	Six 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 was 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.

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 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 Chair of the Remuneration Committee. In 2019 the Committee comprised the independent Non-Executive Directors Christine Cross, John Worby and Angus Porter. The Committee is chaired by Christine Cross who had extensive experience of serving on remuneration committees prior to her appointment to chair the Committee.

Other individuals such as the Executive Chairman, 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 Code and also in the Committee's terms of reference are:

– setting the remuneration policy and agreeing payments for the Company's Non-Executive Chairman, the Executive Directors and Senior Leadership Team;
– 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
– reviewing all elements of workforce remuneration and associated policies.

Attendance at meetings of the Remuneration Committee

	Number attended	Percentage attended
Christine Cross	5	100%
John Worby	5	100%
Angus Porter	5	100%

External advisors

The Committee is advised by FIT Remuneration Consultants LLP on remuneration matters. FIT's fees for advice provided to the Remuneration Committee during the year were £19,535. FIT does not provide any other services to the Group and the Committee is satisfied that it provides independent and objective remuneration advice. FIT is a signatory to the Code of Conduct for Remuneration Consultants in the UK, details of which can be found on the Remuneration Consultants Group's website at www.remunerationconsultantsgroup.com.

Share scheme dilution limits

The Company applies established good governance restrictions over the issue of new shares under all its share schemes of 10% in 10 years and 5% in 10 years for discretionary schemes. As at 29 December 2019 the headroom available under these limits was 2.1% and 0% respectively.

Statement of voting at Annual General Meeting

The following table shows the voting results in respect of the 2018 Directors' remuneration report (other than the Directors' remuneration policy) at the 2019 AGM and the last time the Remuneration Policy was approved by shareholders also at the 2019 AGM:

	Approve Directors' remuneration report	Approve Directors' remuneration policy
AGM year	2019	2019
Resolution type	Advisory	Binding
Votes for %	59,981,468 85.54%	59,981,468 86.35%
Votes against %	10,140,606 14.46%	9,482,939 13.65%
Votes withheld	186,766	844,433

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 29 December 2019	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	390	19	487	471	58	1,425
Philip Heffer	487	41	608	363	73	1,572
Nigel Majewski	394	16	493	353	59	1,315
Non-Executive Directors						
John Worby	58	–	–	–	–	58
Christine Cross	58	–	–	–	–	58
Angus Porter	50	–	–	–	–	50
Total	1,437	76	1,588	1,187	190	4,478

52 weeks to 30 December 2018	Salary and fees £'000	Benefits £'000	Annual bonus £'000	Long term incentive £'000	Pension £'000	Total £'000
Executive Directors						
Robert Watson	430	18	422	588	64	1,522
Philip Heffer	423	50	415	454	63	1,405
Nigel Majewski	358	13	351	454	54	1,230
Non-Executive Directors						
Colin Smith (retired 1 July 2018)	55	–	–	–	–	55
John Worby	55	–	–	–	–	55
Christine Cross	55	–	–	–	–	55
Angus Porter (appointed 1 July 2018)	25	–	–	–	–	25
Total	1,401	81	1,188	1,496	181	4,347

Notes

1. Salary and fees

Reflects salaries/fees paid to Directors in respect of 2019 (with 2018 comparatives).

2. Benefits

Benefits provided comprised company car and fuel and private healthcare.

3. Annual bonus

The 2019 annual bonus had two elements. The financial element bonus was based on adjusted profit before tax performance against a sliding scale of targets. A strategic element bonus was available based on achievement of personal objectives. The bonus outcome for 2019 for all Executive Directors is summarised below.

Bonus element	Metric	Threshold performance	Target performance	Maximum stretch target	2019 achieved
Financial	Adjusted profit before tax	£45.7m	£47.3m	£49.4m	£49.7m
	% against target	97%	100%	105%	105.1%
	% of base salary	20%	50%	105%	105.0%
Strategic	% of base salary			20%	20.0%
Total	% of base salary			125%	125.0%

Directors' remuneration report
continued

Annual report on remuneration continued

The Executive Directors were given a number of different personal and strategic objectives individually tailored to their role and the needs of the business in the year now under review. The achievements against these objectives were considered carefully by the Committee. A summary of these objectives and achievements for the Executive Directors is set out below together with the assessment and overall outcome.

	Objectives	Assessment
Robert Watson	– Support the CEO in the delivery of the strategy and budget, navigating change and planning for the future including succession planning – Lead the acquisition of new business that delivers ongoing sustainable value including the execution of the Australia joint venture transition plan and construction of New Zealand facility – Continue to ensure an effective and entrepreneurial Board that promotes long-term sustainable success and generates value for shareholders – Support the CEO and CFO to protect the current and future funding of the business by promoting the value of the business to existing and potential investors and analysts	Above target
	Outcome of strategic personal objectives	20% out of 20%
Philip Heffer	– Deliver the strategy and budget, navigating change and planning for future growth – Lead the food quality, health and safety and environment agenda – Protect the current and future funding of the business by promoting the value of the business to existing and potential investors and analysts – Ensure a culture and talent pipeline that supports delivery of the Group's growth plans	Above target
	Outcome of strategic personal objectives	20% out of 20%
Nigel Majewski	– Continue to build a positive relationship with investors and analysts and direct investor relation activities – Ensure a robust finance bench is in place to support the continued development of the business – Support continued growth through finance direction ensuring that investments are screened and through long term strategic planning – Raise financing to support business development supporting business flexibility as well as EPS growth	Above target
	Outcome of strategic personal objectives	20% out of 20%

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.

Awards were granted in 2017 under the Long Term Incentive Plan which are due to vest in 2020 subject to performance conditions covering the three financial years 2017-2019. The share price at the date the awards were granted was £7.18. The expected long term incentive outcome is summarised below.

Metric	Threshold performance	Maximum performance	2019 achieved
2017-19 EPS % annual growth	6%	14%	11.0%
Vesting %	10%	100%	66.0%

Director	Awards granted No.	Awards expected to vest 66.0% No.	Value at year end share price of £10.94 £'000	Amount attributable to share price appreciation £'000
Robert Watson	65,237	43,056	471	162
Philip Heffer	50,292	33,193	363	125
Nigel Majewski	48,920	32,287	353	121

The long term incentive values for 2018 have been restated based on the actual share price at vesting (£9.69 instead of the 2018 year end share price of £9.02).

5. Pension
Payments were made during 2019 to money purchase pension schemes or in lieu as a salary supplement at the rate of 15% of base salary for all Executive Directors.

6. Payments to past directors
There were no other payments made to former directors (excluding those in respect of employment with or any other contractual service performed for the Company other than as a director) in 2019.

7. Payments for loss of office
There were no payments for loss of office made in 2019.

Director shareholding and share interests

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

Director	Type	At 30 December 2018	Granted (note 4)	Exercised	Lapsed	At 29 December 2019	Exercise price (pence)	Earliest exercise date	Latest exercise date	Notes
Robert Watson	Shares	2,519,414				2,304,814				1
	Share options	1,394	–	–	–	1,394	645.50	01.06.20	01.12.20	2
	Share options	1,084	–	–	–	1,084	830.00	01.06.21	01.12.21	2
	Total share options	2,478	–	–	–	2,478				
	Nil cost options	74,055	-	(65,242)	(8,813)	–	nil	25.04.19	25.04.26	3
	Nil cost options	65,237	–	–	–	65,237	nil	24.04.20	24.04.27	3
	Nil cost options	39,139	–	–	–	39,139	nil	03.07.21	03.07.28	3
	Nil cost options	–	63,965	–	–	63,965	nil	21.05.22	21.05.29	3
	Total nil cost options	178,431	63,965	(65,242)	(8,813)	168,341				
Philip Heffer	Shares	4,183,172				3,823,172				1
	Share options	1,394	–	–	–	1,394	645.50	01.06.20	01.12.20	2
	Total share options	1,394	–	–	–	1,394				
	Nil cost options	57,090	–	(50,296)	(6,794)	–	nil	25.04.19	25.04.26	3
	Nil cost options	50,292	–	–	–	50,292	nil	24.04.20	24.04.27	3
	Nil cost options	48,873	–	–	–	48,873	nil	03.07.21	03.07.28	3
	Nil cost options	–	79,873	–	–	79,873	nil	21.05.22	21.05.29	3
	Total nil cost options	156,255	79,873	(50,296)	(6,794)	179,038				
Nigel Majewski	Shares	102,435				102,435				1
	Share options	1,394	–	–	–	1,394	645.50	01.06.20	01.12.20	2
	Total share options	1,394	–	–	–	1,394				
	Nil cost options	34,840	–	–	–	34,840	nil	28.04.17	28.04.24	3
	Nil cost options	50,365	–	–	–	50,365	nil	20.04.18	20.04.25	3
	Nil cost options	57,090	–	–	(6,794)	50,296	nil	25.04.19	25.04.26	3
	Nil cost options	48,920	–	–	–	48,920	nil	24.04.20	24.04.27	3
	Nil cost options	40,528	–	–	–	40,528	nil	03.07.21	03.07.28	3
	Nil cost options	–	64,697	–	–	64,697	nil	21.05.22	21.05.29	3
	Total nil cost options	231,743	64,697	–	(6,794)	289,646				
John Worby	Shares	9,000				9,000				1
Christine Cross	Shares	15,000				15,000				1
Angus Porter	Shares	1,000				1,000				1

Notes

1. The Company's Remuneration Policy includes a guideline such that 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 Executive Chairman and Chief Executive Officer and 175% of base salary for all other Executive Directors. At 29 December 2019 Robert Watson held shares whose value by reference to the year end share price as a proportion of his salary was 6,471% with Philip Heffer at 8,597% and Nigel Majewski at 284% exceeding these guidelines.

   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. There have been no changes in the interests of Directors between 29 December 2019 and the date of this report.
2. Share options granted under Hilton's all employee Sharesave Scheme.
3. Nil cost options granted under the Long Term Incentive Plan which are subject to the performance conditions and compound earnings per shares growth below on a sliding scale over the performance period.

Grant year	Performance basis	Performance period	Threshold vesting	Compound annual growth at threshold vesting	Maximum vesting	Compound annual growth at maximum vesting
2015	EPS 100%	2015 – 2017	10%	6%	100%	18%
2016	EPS 100%	2016 – 2018	10%	5%	100%	17%
2017	EPS 100%	2017 – 2019	10%	6%	100%	14%
2018	EPS 100%	2018 – 2020	10%	6%	100%	14%
2019	EPS 70%	2019 – 2021	10%	6%	100%	15%
	TSR 30%	2019 – 2021	10%	Median	100%	Upper quartile

Directors' remuneration report
continued

Annual report on remuneration continued

4. Grant of nil cost option awards in the year were as follows:

Director	Face value	Number of shares under 2019 LTIP award	Proportion of salary	Share price date	Share price
Robert Watson	£681,870	63,965	175%	20 May 2019	1066.00p
Philip Heffer	£851,445	79,873	175%	20 May 2019	1066.00p
Nigel Majewski	£689,670	64,697	175%	20 May 2019	1066.00p

Further information

Statement of implementation of remuneration policy in the 2020 financial year

Base salaries, benefits and pension

For 2020 Executive Director salaries for Robert Watson, Philip Heffer and Nigel Majewski have increased by 2% in line with the increases of the general workforce.

	2019 £'000	2020 £'000
Robert Watson	390	398
Philip Heffer	487	497
Nigel Majewski	394	402

There are no changes in benefits and pensions.

Annual bonus

The maximum annual bonus in 2020 will continue to be set at 125% of salary. This bonus will be payable subject to stretching targets around the adjusted profit before tax metric (up to 105% of salary) and personal and strategic targets (up to 20% of salary). Both financial targets, set with reference to the budget, and detailed personal and strategic targets are considered commercially sensitive. The Committee will therefore disclose targets on a retrospective basis. However these have been aligned to broadly cover responsible customer, category and geographic growth with financial and people resource to support.

2020 LTIP awards

The Committee will make a decision to grant LTIP awards to Executive Directors over shares equal to 175% of salary in 2020 following the Annual report approval date. Details of the new grant and performance conditions summarised below will be published via a Regulatory Information Service.

EPS – 70% of awards – targets for this performance metric, to be measured over the three financial years commencing with the year of grant, will be confirmed once the impact of the current Covid-19 pandemic becomes clearer to ensure they are appropriately stretching yet motivational.

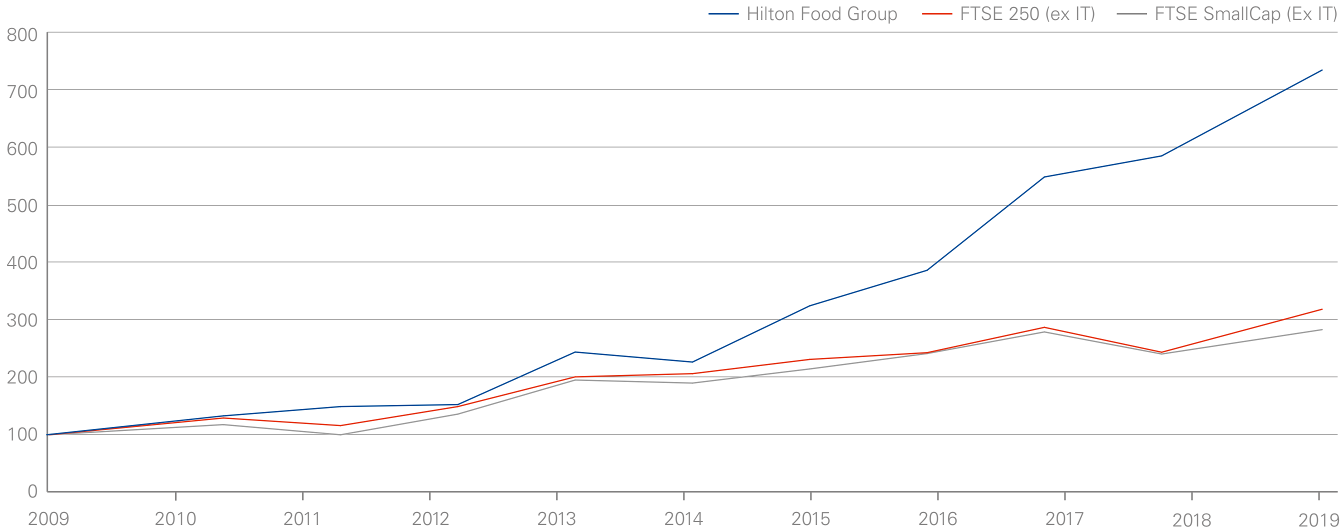
TSR – 30% of awards – 10% of this part of an award will vest for median performance against the constituents of the FTSE 250 (excluding investment trusts) increasing pro-rata to full vesting for this part of an award for upper quartile performance measured over the three financial years commencing with the year of grant. In addition, no part of this award may vest unless the Committee is satisfied with the underlying performance of the Company.

Non-Executive Directors

Non-Executive Director fees for John Worby, Christine Cross and Angus Porter will increase by 2% in line with the increases of the general workforce. These pay elements will be operated in line with the approved policy.

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 250 and FTSE Small Cap Indexes covering the ten years 2010 to 2019. The FTSE 250 and FTSE Small Cap Indexes are, in the opinion of the Directors, the most appropriate indexes against which the TSR of the Company should be measured.



Chief Executive Officer remuneration ten year trend

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total remuneration (£'000)	644	730	593	610	626	784	1,235	1,570	1,627	1,572
Annual bonus (as a percentage of the maximum)	63%	53%	10%	42%	0%	60%	69%	80%	78%	100%
Long term incentive vesting (as a percentage of the maximum)	100%	100%	100%	n/a	0%	0%	61%	73%	88%	66%

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

2018 CEO remuneration comprises the remuneration of Robert Watson from 1 January 2018 to 30 June 2018, when he transitioned to Executive Chairman, and that of Philip Heffer from 1 July 2018 to 30 December 2018.

Directors' remuneration report
continued

Further information continued

Chief Executive Officer remuneration percentage change

2019 percentage increase over 2018	CEO	Company average
Salary	2.0%	2%
Benefits	0.0%	n/a
Annual bonus	29.8%	n/a

Note
The majority of employees do not receive benefits or annual bonuses and so there is no meaningful data. An alternative comparator group is the executive leadership team for whom the percentage changes for salary, benefits and annual bonus were 2%, 0% and 28% respectively.

CEO pay ratio

		CEO pay ratio		
Year	Method	25th percentile pay ratio	Median – 50th percentile pay ratio	75th percentile pay ratio
2019	Option B	83	79	51

Option B has been adopted on the basis that it could be linked with an existing process generating gender pay gap information. This information, comprising basic pay since the majority of employees do not receive benefits or annual bonuses, as at April 2019 was used as a starting point to identify those UK employees as the best equivalents of P25, P50 and P75. There was no reliance on estimates or judgements. The information for these employees was then updated to represent total pay and benefits for the 2019 financial year.

	Salary component £'000	Total pay and benefits £'000
25th percentile employee	18	19
50th percentile employee	20	20
75th percentile employee	30	31

The Committee is satisfied that the median pay ratio for the year is consistent with the pay, reward and progression policies for the Group's UK employees taken as a whole because all Hilton employees have the same pay and reward policies and opportunities.

Gender pay gap

We report information about the difference in average pay for its male and female employees as required by gender pay gap legislation. Gender pay gap metrics are submitted by the Group's main two UK employing entities. The headline gender pay metric is the difference in the median hourly pay received by men and women. For 2019, this metric is 14.7% for Hilton Foods UK and 9.7% for Seachill both favouring men which is broadly similar to, or an improvement on, previous years. For more information and to view the full metrics see the gender pay gap portal or our website www.hiltonfoodgroup.com.

Relative importance of spend on pay

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

	2019 £'000	2018 £'000	% change
Staff costs (note 8 to the financial statements)	143,942	127,584	13%
Dividends payable	17,489	17,462	0%

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
6 April 2020

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 52 and 53, 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 6 April 2020 and is signed on its behalf by:

Robert Watson OBE
Executive Chairman

Nigel Majewski
Chief Financial Officer

Independent auditors' report
to the members of Hilton Food Group plc

Report on the audit of the financial statements

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 29 December 2019 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;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- 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.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 29 December 2019; the consolidated income statement and consolidated statement of comprehensive income, the cash flow statement, and the statement of changes in equity for the 52 week period then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the company.

Other than those disclosed in note 6 to the financial statements, we have provided no non-audit services to the group or the company in the period from 31 December 2018 to 29 December 2019.

The scope of our audit

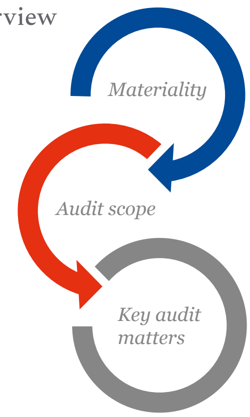
As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006, and we considered the extent to which non-compliance might have a material effect on the financial statements. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to management bias through judgements and assumptions in significant accounting estimates. The group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the group engagement team and/or component auditors included:

Our audit approach

Overview



- Overall group materiality: £2,157,800 (2018: £2,166,600), based on 5% of profit before tax.
- Overall company materiality: £1,676,000 (2018: £1,575,000), based on 1% of total assets.

- Eight trading subsidiaries, together with four intermediate holding companies require local statutory audits and were in-scope for group reporting.
- An Australian and a United Kingdom trading subsidiary and four joint venture companies (the UK, Australian, Dutch and Portuguese) were subject to specified audit procedures.

- Customer supply arrangements.
- Covid-19.

- Discussions with, internal audit, management and those charged with governance in relation to known or suspected instances of non-compliance with laws and regulation and fraud;
- Evaluation and where relevant testing of the operating effectiveness of management's controls designed to prevent and detect fraud in financial reporting;
- Confirmation that there have been no matters reported on the group's whistleblowing helpline;
- Review of minutes from board and other committee meetings e.g. audit committee or remuneration committee; and
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to complex customer arrangements (see related key audit matter).

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

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Complex customer arrangements (group)	
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 mainly based on contracted rates and known sales volumes, there is limited judgement required around the accurate recognition of these amounts 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 a heightened risk that the application of those terms might be calculated inaccurately, omitted from the calculation or included in the incorrect accounting period. 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, resulting in an increased risk of errors in the calculations.	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 to determine, in conjunction with the fact that we did not identify any omitted agreements through our audit procedures in other areas, whether the list of contracts management had provided was complete. We selected a sample of rebate and incentive accruals and agreed the inputs to the calculations to the contracts and the sales to sales amounts in the accounting ledgers (which we had audited) to test the accuracy and timing of recognition of the rebates. Our testing did not identify any errors. We also selected rebate and incentive payments made after the period end and checked that they were appropriately accrued in the correct period. Where settlement was made during the year or following the year end, we compared these to the amounts accrued. No issues were identified through this procedure.

Independent auditors' report
continued

Key audit matter	How our audit addressed the key audit matter
Covid-19 (group)	
The ongoing and evolving Covid-19 pandemic is having a significant impact on the global economy and the economies of those countries in which the group operates. There is significant uncertainty as to the duration of the pandemic and what its lasting impact will be on those economies. The Group provides processed and packaged meat, fish and other proteins to supermarkets and the provision of food is a key sector in all of the countries that the Group operates in. The key challenges that could be faced by the group are related to the availability of labour and the continued supply of raw materials and packaging materials. Management and the Board are monitoring the situation and have implemented a number of measures in line with the Groups risk management strategy to support the on-going operations of the facilities around the world. These include actions and mitigations such as: – The existence of the group's sister site protocols; – Regular communications with suppliers to understand the status of the supply chain and maintain required stock levels; – Regular communications with customers to support them in meeting consumer demand and product mix; and – Contingencies to ensure sufficient labour is available to operate the facilities. At the year end the group held cash and cash equivalents of £110.5m and had undrawn bank facilities of £71.1m.	We understand that as a key industry, the group's activities are allowed to continue and therefore are not subject to enforced or advised closure. We have held discussions with the Directors and management and reviewed board papers and analysis to understand the group's assessment of the impact of Covid-19. We have obtained management's assessment and revised cashflow projections of the possible impact of Covid-19 on the Group, we have assessed and challenged the assumptions applied by management and considered them to be reasonable. We have reviewed management's disclosures within the financial statements and consider these to be reasonable.

We determined that there were no key audit matters applicable to the company to communicate in our report.

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 structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

The Group is structured as a parent company with seventeen subsidiary undertakings. There are ten trading subsidiaries located in the United Kingdom, the Republic of Ireland, the Netherlands, Poland, Denmark, Sweden and Australia; all of these entities are required to have statutory audits under local legislation. There are four intermediary holding companies, all located in the United Kingdom, which are all required to have statutory audits. All of these entities are audited by PwC network firms. The remaining seven entities are either dormant or newly incorporated entities and were not considered to be significant to the Group, though specific procedures were carried out on certain balances and transactions. In addition to these seventeen entities the Group has a 50% interest in joint venture companies located in Australia, Portugal, the Netherlands and the United Kingdom. The joint ventures were subject to specified audit procedures.

The key protocols 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;
- holding planning discussions 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 to identify any unusual transactions or balances for discussion with component auditors;
- attending, with Group management, the component clearance meetings 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.

The only significant component in the Group whose statutory audit opinion is not signed by the Group engagement partner is located in the Netherlands. The Group engagement partner visited the component auditor to review the working papers that support their opinion to PwC UK. This review included assessing their work over the three significant risk areas: i) management override of controls; ii) the risk of fraud in revenue recognition; and iii) complex customer arrangements. In addition, as part of the group planning procedures, the Group engagement partner visited the component PwC and local management teams in Denmark and Sweden.

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 in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Company financial statements
Overall materiality	£2,157,800 (2018: £2,166,600).	£1,676,000 (2018: £1,575,000).
How we determined it	5% of profit before tax.	1% of total assets.
Rationale for benchmark applied	Based on the benchmarks used in the annual report, profit before tax is the primary measure used by the shareholders in assessing the performance of the group and is a generally accepted auditing benchmark.	We believe that total assets is the primary measure used by the shareholders in assessing the performance of the entity, and is a generally accepted auditing benchmark for a holding company with no trading operations.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £100,000 and £1,700,000.

Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £100,000 (Group audit) (2018: £100,000) and £100,000 (Company audit) (2018: £100,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the group's and the parent company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and parent company's ability to continue as a going concern.
We are required to report if the directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

Independent auditors' report
continued

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the period ended 29 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. *(CA06)*

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. *(CA06)*

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

We have nothing material to add or draw attention to regarding:

- The directors' confirmation on page 24 of the Annual Report 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.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The directors' explanation on page 23 of the Annual Report 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 to report having performed a review of the directors' statement that they have carried out a robust assessment of the principal risks facing the group and 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 UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the group and company and their environment obtained in the course of the audit. *(Listing Rules)*

Other Code Provisions

We have nothing to report in respect of our responsibility to report when:

- The statement given by the directors, on page 79, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the 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 obtained in the course of performing our audit.
- The section of the Annual Report on pages 61 and 62 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. *(CA06)*

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' responsibilities in respect of the annual report and financial statements set out on page 79, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

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

- we have not 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
- certain disclosures of directors' remuneration specified by law are not made; 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.

Appointment

Following the recommendation of the audit committee, we were appointed by the directors on 1 October 2007 to audit the financial statements for the year ended 31 December 2007 and subsequent financial periods. The period of total uninterrupted engagement is 13 years, covering the years ended 31 December 2007 to 29 December 2019.

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

6 April 2020

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

In this section

For more information visit:
www.hiltonfoodgroupplc.com

Consolidated income statement

	Notes	2019 52 weeks £'000	2018 52 weeks £'000
Continuing operations			
Revenue	5	1,814,667	1,649,591
Cost of sales		(1,566,715)	(1,440,193)
Gross profit		247,952	209,398
Distribution costs		(22,778)	(18,283)
Administrative expenses		(175,811)	(150,030)
Share of profit in joint ventures		6,406	5,213
Operating profit		55,769	46,298
Finance income	9	96	49
Finance costs	9	(12,709)	(3,015)
Finance costs – net	9	(12,613)	(2,966)
Profit before income tax		43,156	43,332
Income tax expense	10	(7,996)	(8,626)
Profit for the year		35,160	34,706
Attributable to:			
Owners of the parent		33,065	32,534
Non-controlling interests		2,095	2,172
		35,160	34,706
Earnings per share attributable to owners of the parent during the year			
Basic (pence)	11	40.5	39.9
Diluted (pence)	11	40.1	39.5

Consolidated statement of comprehensive income

	2019 52 weeks £'000	2018 52 weeks £'000
Profit for the year	35,160	34,706
Other comprehensive expense		
Currency translation differences	(4,175)	(671)
Other comprehensive expense for the year net of tax	(4,175)	(671)
Total comprehensive income for the year	30,985	34,035
Total comprehensive income attributable to:		
Owners of the parent	29,186	31,788
Non-controlling interests	1,799	2,247
	30,985	34,035

The notes on pages 92 to 120 are an integral part of these consolidated financial statements.

Balance sheet

	Notes	Group 2019 £'000	Group 2018 £'000	Company 2019 £'000	Company 2018 £'000
Assets					
Non-current assets					
Property, plant and equipment	13	226,562	158,549	–	–
Intangible assets	14	69,539	66,960	–	–
Lease: Right of Use Asset	15	178,293	–	–	–
Investments	16	11,758	5,209	157,221	157,221
Trade and other receivables	19	662	1,227	–	–
Deferred income tax assets	24	2,270	1,653	–	–
		489,084	233,598	157,221	157,221
Current assets					
Inventories	18	91,337	82,190	–	–
Trade and other receivables	19	214,611	172,465	10,272	272
Current tax assets		–	769	–	–
Other financial asset	21	–	7,813	–	–
Cash and cash equivalents	20	110,514	80,234	122	82
		416,462	343,471	10,394	354
Total assets		905,546	577,069	167,615	157,575
Equity					
Equity attributable to owners of the parent					
Ordinary shares	25	8,173	8,160	8,173	8,160
Share premium		64,251	63,628	64,251	63,628
Employee share schemes reserve		4,139	5,505	–	–
Foreign currency translation reserve		255	4,134	–	–
Retained earnings		140,192	124,923	24,172	14,768
Reverse acquisition reserve		(31,700)	(31,700)	–	–
Merger reserve		919	919	71,019	71,019
		186,229	175,569	167,615	157,575
Non-controlling interests		5,711	5,677	–	–
Total equity		191,940	181,246	167,615	157,575
Liabilities					
Non-current liabilities					
Borrowings	22	175,370	107,923	–	–
Lease liabilities	15	132,790	1,503	–	–
Deferred consideration		3,318	–	–	–
Deferred income tax liabilities	24	4,116	6,104	–	–
		315,594	115,530	–	–
Current liabilities					
Borrowings	22	21,969	5,118	–	–
Lease liabilities	15	51,843	290	–	–
Trade and other payables	23	321,771	274,885	–	–
Current tax liabilities		2,429	–	–	–
		398,012	280,293	–	–
Total liabilities		713,606	395,823	–	–
Total equity and liabilities		905,546	577,069	167,615	157,575

The notes on pages 92 to 120 are an integral part of these consolidated financial statements.

The financial statements on pages 88 to 120 were approved by the Board on 6 April 2020 and were signed on its behalf by:

R. Watson
Director

N. Majewski
Director

Hilton Food Group plc – Registered number: 06165540

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 £27,200,000 (2018: £14,800,000).

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 1 January 2018		8,135	62,335	5,723	4,880	108,358	(31,700)	919	158,650	5,094	163,744
Profit for the year		–	–	–	–	32,534	–	–	32,534	2,172	34,706
Other comprehensive income											
Currency translation differences		–	–	–	(746)	–	–	–	(746)	75	(671)
Total comprehensive income for the year		–	–	–	(746)	32,534	–	–	31,788	2,247	34,035
Issue of new shares		25	1,293	–	–	–	–	–	1,318	–	1,318
Adjustment in respect of employee share schemes		–	–	(238)	–	–	–	–	(238)	–	(238)
Tax on employee share schemes	–	–	20	–	–	–	–	20	–	20	
Dividends paid	12	–	–	–	–	(15,969)	–	–	(15,969)	(1,664)	(17,633)
Total transactions with owners		25	1,293	(218)	–	(15,969)	–	–	(14,869)	(1,664)	(16,533)
Balance at 30 December 2018		8,160	63,628	5,505	4,134	124,923	(31,700)	919	175,569	5,677	181,246
Profit for the year		–	–	–	–	33,065	–	–	33,065	2,095	35,160
Other comprehensive income											
Currency translation differences	–	–	–	(3,879)	–	–	–	(3,879)	(296)	(4,175)	
Total comprehensive income for the year		–	–	–	(3,879)	33,065	–	–	29,186	1,799	30,985
Issue of new shares		13	623	–	–	–	–	–	636	–	636
Adjustment in respect of employee share schemes		–	–	(1,445)	–	–	–	–	(1,445)	–	(1,445)
Tax on employee share schemes	–	–	79	–	–	–	–	79	–	79	
Dividends paid	12	–	–	–	–	(17,796)	–	–	(17,796)	(1,765)	(19,561)
Total transactions with owners		13	623	(1,366)	–	(17,796)	–	–	(18,526)	(1,765)	(20,291)
Balance at 29 December 2019		8,173	64,251	4,139	255	140,192	(31,700)	919	186,229	5,711	191,940
Company											
Balance at 1 January 2018		8,135	62,335	–	–	15,937	–	71,019	157,426		
Profit for the year		–	–	–	–	14,800	–	–	14,800		
Total comprehensive income for the year		–	–	–	–	14,800	–	–	14,800		
Issue of new shares		25	1,293	–	–	–	–	–	1,318		
Dividends paid	12	–	–	–	–	(15,969)	–	–	(15,969)		
Total transactions with owners		25	1,293	–	–	(15,969)	–	–	(14,651)		
Balance at 30 December 2018		8,160	63,628	–	–	14,768	–	71,019	157,575		
Profit for the year		–	–	–	–	27,200	–	–	27,200		
Total comprehensive income for the year		–	–	–	–	27,200	–	–	27,200		
Issue of new shares		13	623	–	–	–	–	–	636		
Dividends paid	12	–	–	–	–	(17,796)	–	–	(17,796)		
Total transactions with owners		13	623	–	–	(17,796)	–	–	(17,160)		
Balance at 29 December 2019		8,173	64,251	–	–	24,172	–	71,019	167,615		

The notes on pages 92 to 120 are an integral part of these consolidated financial statements.

Cash flow statement

		Group		Company	
	Notes	2019 52 weeks £'000	2018 52 weeks £'000	2019 52 weeks £'000	2018 52 weeks £'000
Cash flows from operating activities					
Cash generated from operations	27	90,376	66,166	–	–
Interest paid		(12,709)	(3,015)	–	–
Income tax paid		(7,410)	(9,666)	–	–
Net cash generated from operating activities		70,257	53,485	–	–
Cash flows from investing activities					
Acquisition of subsidiary, net of cash acquired		591	–	–	–
Investment in joint ventures		(5,246)	–	–	–
Purchases of property, plant and equipment		(98,555)	(98,412)	–	–
Proceeds from sale of property, plant and equipment		198	308	–	–
Purchases of intangible assets		(830)	(930)	–	–
Interest received		96	49	–	–
Dividends received		–	–	27,200	14,800
Dividends received from joint venture		4,995	9,958	–	–
Net cash (used in)/generated from investing activities		(98,751)	(89,027)	27,200	14,800
Cash flows from financing activities					
Proceeds from borrowings		95,596	69,646	–	–
Repayments of borrowings		(8,311)	(7,800)	–	–
Payment of lease liability		(14,776)	(363)	–	–
Issue of inter-company loan		–	–	(10,000)	–
Issue of ordinary shares		636	1,047	636	1,047
Other financial asset		7,513	–	–	–
Dividends paid to owners of the parent		(17,796)	(15,969)	(17,796)	(15,969)
Dividends paid to non-controlling interests		(1,765)	(1,664)	–	–
Net cash generated from/(used in) financing activities		61,097	44,897	(27,160)	(14,922)
Net increase/(decrease) in cash and cash equivalents		32,603	9,355	40	(122)
Cash and cash equivalents at beginning of the year		80,234	70,853	82	204
Exchange gains on cash and cash equivalents		(2,323)	26	–	–
Cash and cash equivalents at end of the year	20	110,514	80,234	122	82

The notes on pages 92 to 120 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 leading specialist international food packing business supplying major international food retailers in fourteen European countries and Australia. The Company's subsidiaries are listed in note 16.

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

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

The financial year represents the 52 weeks to 29 December 2019 (prior financial year 52 weeks to 30 December 2018).

These consolidated financial statements were approved for issue on 6 April 2020.

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 £27,200,000 (2018: £14,800,000).

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 and company 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 and company 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 23.

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

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

Basis of consolidation

These consolidated financial statements comprise the financial statements of Hilton Food Group plc ('the Company'), its subsidiaries and its share of profit in joint ventures, together, ('the Group') drawn up to 29 December 2019. 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 2019

The following standards and amendments are applicable for accounting periods beginning on or after 1 January 2019. The Group has selected to adopt these early, though with the exception of IFRS 16, 'Leases' which is explained in detail below, they have had no impact on the Group's financial position or performance in the current or prior years.

IFRS 16, 'Leases'

IFRIC 23, 'Uncertainty over Income Tax Treatments'

Amendments to IFRS 9 – Prepayment Features with Negative Compensation

Amendments to IAS 28 – Long-term Interests in Associates and Joint Ventures

Amendments to IAS 19 – Plan Amendment, Curtailment or Settlement

Annual Improvements to IFRS Standards 2015-2017 Cycle

- IFRS 3, 'Business Combinations'
- IFRS 11, 'Joint Arrangements'
- IAS 12, 'Disclosure of Interest in Other Entities'
- IAS 23, 'Borrowing Costs'

b) New standard, amendments and interpretations issued but not yet effective, are subject to UK/EU endorsement and not early adopted

IFRS 17, 'Insurance Contracts'* (effective 1 January 2021)

Amendments to IAS 1 and IAS 8 – Definition of Material (1 January 2020)

Amendment to IFRS 3 – Definition of a Business* (1 January 2020)

Revised Conceptual Framework for Financial Reporting (1 January 2020)

Amendment to IFRS 9, IAS 39 and IFRS 7* – Interest rate benchmark reform (1 January 2020)

* Not yet endorsed by the UK.

IFRS 16 – Leases

This note explains the impact of the adoption of IFRS 16 "Leases" on the Group's condensed consolidated financial information and discloses the new accounting policies that have been applied from 31 December 2018. The Group has adopted IFRS 16 early, applying the modified retrospective approach, and has not restated comparatives for the reporting period ended 30 December 2018, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 31 December 2018.

Adjustments recognised on adoption of IFRS 16

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 "Leases". These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 31 December 2018. The weighted average lessee's incremental borrowing rates applied to leases ranged from 1.8% – 5.2% and were dependent on tenor of the property lease liabilities and the country in which the lease agreement was entered into.

For leases previously classified as finance leases the Group has recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right-of-use asset and the lease liability at the date of initial application. The measurement principles of IFRS 16 are only applied after that date.

Notes to the financial statements
continued

2 Summary of significant accounting policies continued

	£'000
Operating lease commitment disclosed as at 30 December 2018	100,106
Less: short term and low value leases recognised on a straight line basis	(1,463)
Add: Adjustments as a result of changes to treatment of extension and termination options	16,765
Add: Increase in lease liabilities resulting from changes to assessment of purchase options	51,518
Less: Impact of discounting using incremental borrowing rates	(25,771)
Lease liability recognised following adoption of IFRS 16	141,155
Add: Existing finance lease liabilities at 30 December 2018	1,793
Opening lease liability recognised at 31 December 2018	142,948

Of which were:	
Current lease liabilities	22,053
Non-current lease liabilities	120,895
	142,948

Right-of use assets for all leases were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to those leases recognised in the balance sheet as at 30 December 2018.

The recognised right-of-use assets relates to leases of land and buildings and other assets classes.

	29 December 2019 £'000	31 December 2018 £'000
Land and buildings	132,940	77,748
Other leased assets	45,353	62,899
Total	178,293	140,647

The change in accounting policy affected the following items in the balance sheet on 31 December 2018:

- property, plant and equipment – decrease by £930,000
- right-of-use assets – increase by £140,647,000
- prepayments and other receivables – decrease by £840,000
- lease liabilities – increase by £141,155,000
- other liabilities – decrease by £2,278,000

There was no deferred tax impact.

The impact was an increase in total assets and total liabilities of £138,877,000.

The Group's 2018 financial statements included the disclosure of expected opening balances for right of use assets and lease liabilities of £94m – 98m, however this has been re-assessed to be £140.6m as summarised above. This re-assessment has resulted following a further review of how purchase options were reflected in expected lease cash flows.

Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the exclusion of leases with a remaining lease term of less than 12 months as at 31 December 2018, from the calculation of right-of-use assets and lease liabilities;
- the exclusion of leases of low value assets;
- exclusion of initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 4 "Determining whether an Arrangement contains a Lease".

Group leasing activities and accounting treatment

The Group's leases relate to property leases for a number of food processing facilities, leases of plant and equipment and leases of motor vehicles. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

Until the 2018 financial year, leases of property, plant and equipment were classified as either finance or operating leases in accordance with IAS 17. Payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.

From 31 December 2018, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the repayment of the lease liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. The depreciation is being charged to administration expenses in the Group's Income Statement, in-line with where depreciation has previously been recorded.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and,
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received; and
- any initial direct costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office equipment.

Extension and termination options

Extension and termination options are included in a number of property leases across the Group. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

Revenue recognition

The Group sources raw materials often in conjunction with its customers. The raw materials are then processed, packed and delivered to customers. Revenue is recognised when control of the products has transferred, that is when the products have been delivered to the customer's specified location or have been collected by the customer from the Group's facilities. At that point the customers have obtained all the benefits of the products and have full discretion over the channel and price to sell the products, and the Group has no unfulfilled obligation that could affect the customers' acceptance of the products. Delivery occurs when the products have been shipped to the specific location or have been collected 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.

The products are sold with discounts and rebates which are based on contractual arrangements. Revenue from these sales is recognised based on the price specified in the contract, net of the estimated discounts or rebate. Accumulated experience is used to estimate and provide for the discounts and rebates, using the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. A payable is recognised for expected rebates and discounts are deducted from the amount receivable from the customer.

A receivable is recognised when the goods are delivered to the customer's specified location or collected by the customer, since this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Notes to the financial statements
continued

2 Summary of significant accounting policies continued

Segment reporting

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

Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

(c) Group companies

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

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

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

Business combinations

Business combinations are accounted for using the acquisition method.

The consideration transferred for the acquisition of a subsidiary or business comprises the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes any contingent consideration arrangement and any pre-existing equity interest in the subsidiary measured at their fair values at the acquisition date.

Acquisition-related costs are expensed as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

The excess of (a) the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the (b) fair value of the identifiable net assets acquired is recorded as goodwill.

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) Other intangibles

Other intangibles include acquired software licences, customer relationships and brands and are stated at cost or acquisition fair value less accumulated amortisation. Software license are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Amortisation is charged on a straight line basis over the assets' useful economic lives of three to ten years.

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

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 its financial assets at amortised cost only if both of the following criteria are met:

- the asset is held within a business model whose objective is to collect the contractual cash flows; and
- the contractual terms give rise to cash flows that are solely payments of principal and interest.

These items 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. Such assets include, 'trade and other receivables', 'cash and cash equivalents' and 'other financial assets' in the balance sheet.

Notes to the financial statements
continued

2 Summary of significant accounting policies continued

b) Recognition and measurement

Financial assets are recognised initially at the amount of consideration that is unconditional, unless they contain a significant financing component, in which case they are recognised at fair value. These assets are held with the objective of collecting the contractual cash flows, and so it measures them subsequently 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 applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all financial assets.

Once the expected credit loss has been determined, this is deducted from the carrying value of the asset and recognised in the consolidated income statement.

Inventories

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

Trade and other receivables

Trade receivables are 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 the amount of consideration that is unconditional, unless they contain significant financing components, in which case they are recognised at fair value. The Group holds the trade receivables with the objective of collecting the contractual cash flows, and so it measures them subsequently at amortised cost using the effective interest method. Details about the Group's impairment policies and the calculation of the loss allowance are provided in note 19.

The Group applies the IFRS 9 simplified approach to measuring expected credit loss which uses a lifetime expected loss allowance for all trade receivables and contract assets.

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.

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, Denmark and Australia 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.

Notes to the financial statements
continued

3 Financial risk management

Financial risk factors

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

(a) Market risk

(i) Price risk

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

(ii) Foreign exchange risk

The Group is exposed to foreign exchange risk in the normal course of business in its overseas operations, principally on transactions in Euros, Swedish Krona, Danish Krone, Polish Zloty, Australian Dollar and New Zealand Dollar 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.

(iv) Sensitivity analysis

Group	2019 Income statement £'000	2019 Equity £'000	2018 Income statement £'000	2018 Equity £'000
Annual effect of a change in Group-wide interest rates by 0.5%	572	572	264	264
	(572)	(572)	(264)	(264)
Annual effect of a change in exchange rates to the GBP £ by 10%	2,625	9,494	2,436	235
	(2,147)	(7,768)	(1,993)	(6,943)

(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 £316.2m (2018: £254.1m) as stated in note 30.

(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 £110.5m (2018: £80.2m) 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:

	2019			2018		
	Borrowings £'000	Leases £'000	Trade and other payables £'000	Borrowings £'000	Finance leases £'000	Trade and other payables £'000
Less than one year	26,110	58,130	315,094	7,228	345	268,037
Between one and two years	35,072	13,378	–	16,078	345	–
Between two and five years	146,054	37,247	–	92,127	1,036	–
Over five years	–	125,049	–	–	258	–

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 bank debt divided by EBITDA. Net bank 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, excluding the impact of IFRS 16. The gearing of the company was 108.4% as at the year end (2018: 37.9%).

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.

Critical accounting judgements

Leases

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). For leases of buildings and equipment, the following factors are normally the most relevant:

- If there are significant penalties to terminate (or not extend), the Group is typically reasonably certain to extend (or not terminate).
- If any leasehold improvements are expected to have a significant remaining value, the group is typically reasonably certain to extend (or not terminate).
- Otherwise, the group considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

Most extension options in vehicles leases have not been included in the lease liability, because the group could replace the assets without significant cost or business disruption.

The lease term is reassessed if an option is actually exercised (or not exercised) or the group becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

Long term supply contracts

On adoption of IFRS 16 the Group elected not to reassess whether a contract is or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessments made applying IAS 17 and IFRIC 4 "Determining whether an Arrangement contains a Lease".

Some of Hilton's long term supply contracts are on a cost plus basis. These cost plus arrangements typically contain benchmarking clauses which allow our customers to obtain competitive pricing or to source supply from a competitor. Additional 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, market price. On this basis the criteria in IFRIC 4 for determining whether these agreements contained a lease were not met.

Notes to the financial statements
continued

4 Critical accounting estimates and judgements continued

Under IFRS 16 the assessment of whether a contract is or contains a lease will be determined based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

To assess whether a contracts conveys the right to control the use of an asset judgement is required in the assessment of a customer's right to:

– obtain substantially all of the economic benefits from the use of the identified asset through out the period of use; and;
– direct the use of the identified asset.

Although a number of the Group's supply contracts are fulfilled from dedicated manufacturing facilities, and therefore customers will obtain a significant proportion of the economic benefits from their use, the Group believes that future Long Term Supply contracts should not be assessed as containing leases as the Group considers it has the right to direct the use of the identified assets.

Revenue recognition

In July 2018 the Group took operational control of the joint venture facilities operated in Australia. The joint venture continues to earn a processing fee based on the volume of retail packed meat delivered to stores. The cost of production of this meat, other raw materials, indirect and direct overheads, are incurred by the Group and then recharged to the customer. The assessment of whether the Group should recognise the costs and related recharges on a net basis or gross basis, with revenue and equal costs recognised separately, has required the exercise of significant judgement. The joint venture board continues to have oversight of the operations and activities of these facilities and therefore, although the Group maintains day-to-day operational control, it does not have full control of them. Equally, although the Group recognises its share of the joint venture's profits arising from receipt of the processing fee using equity accounting, it does not directly receive reward for the retail packing operations at these facilities. Taking these key factors into account the Group has concluded that whilst the joint venture structure remains in place it is appropriate for the costs associated with retail packed meat production at the joint venture facilities and their subsequent recharge to be recognised on a net basis.

Critical accounting estimates

Goodwill impairment

Goodwill is reviewed for impairment on at least an annual basis. Details of the tests and carrying value of the assets are shown in note 14. An impairment review requires an estimation of the value-in-use of the cash-generating units to which the goodwill is allocated. Value-in-use calculations require assumptions to be made regarding the expected future cash flows from the cash generating unit and choice of a suitable discount rate in order to calculate the present value of those cash flows. If the actual cash flows are lower than estimated, future impairments may be necessary.

Share based payments

Judgement is required when calculating the fair value of awards made under the Group's share-based payment plans. Note 26 describes the key assumptions and valuation model inputs used in the determination of these values. In addition estimates are made of the number of awards that will ultimately vest and judgement is required in relation to the probability of meeting non-market-based performance conditions and the continuing participation of employees in the plans.

Business combinations

For business combinations the assets acquired, liabilities assumed and consideration payable are all valued at fair value. This requires a number of estimates and judgement to be applied including in respect of expected future performance when assessing the fair value of deferred consideration. Note 17 describes the business combination that took place in the financial year.

During 2019 and 2018 there were no other critical accounting estimates or judgements in relation to the application of the Group's accounting policies.

5 Segment information

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

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

From a geographic perspective, the Executive Directors consider that the Group has nine 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; vii) Portugal; viii) Australasia and ix) Central costs. The United Kingdom, Netherlands, Republic of Ireland, Sweden, Denmark and Portugal have been aggregated into one reportable segment 'Western Europe' as they have similar economic characteristics as identified in IFRS 8. Central Europe, Australasia and Central costs comprise the other reportable segments.

In the prior year, Central costs included both the new Australasian segment and Central costs. 2018 segmental information has been restated to present these separately.

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

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

	Western Europe £'000	Central Europe £'000	Australasia £'000	Central costs £'000	2019 Total £'000	Western Europe £'000	Central Europe £'000	Australasia £'000	Central costs £'000	2018 Total £'000
Total revenue	1,671,113	94,330	89,772	–	1,855,215	1,584,185	100,102	9,640	–	1,693,927
Inter-co revenue	(37,457)	(3,091)	–	–	(40,548)	(33,781)	(10,555)	–	–	(44,336)
Third party revenue	1,633,656	91,239	89,772	–	1,814,667	1,550,404	89,547	9,640	–	1,649,591
Operating profit/(loss) segment result	53,178	2,299	12,840	(10,110)	58,207	51,456	2,307	5,522	(10,603)	48,682
Intangibles amortisation	(2,438)	–	–	–	(2,438)	(2,384)	–	–	–	(2,384)
Operating profit/(loss) segment result	50,740	2,299	12,840	(10,110)	55,769	49,072	2,307	5,522	(10,603)	46,298
Finance income	5	–	91	–	96	4	45	–	–	49
Finance costs	(2,931)	(301)	(7,523)	(1,954)	(12,709)	(1,614)	(14)	(55)	(1,332)	(3,015)
Income tax (expense)/credit	(9,452)	(412)	393	1,475	(7,996)	(9,796)	(461)	(350)	1,981	(8,626)
Profit/(loss) for the year	38,362	1,586	5,801	(10,589)	35,160	37,666	1,877	5,117	(9,954)	34,706
Depreciation and amortisation	28,086	1,928	15,286	122	45,422	21,121	1,035	185	123	22,464
Additions to non-current assets	30,867	19,160	48,941	417	99,385	45,643	6,681	44,432	2,586	99,342
Segment assets	494,662	46,920	348,293	13,401	903,276	431,896	26,590	102,971	13,190	574,647
Current income tax assets					–					769
Deferred income tax assets					2,270					1,653
Total assets					905,546					577,069
Segment liabilities	272,609	29,742	329,449	75,261	707,061	248,562	17,239	81,621	42,297	389,719
Current income tax liabilities					2,429					–
Deferred income tax liabilities					4,116					6,104
Total liabilities					713,606					395,823

Notes to the financial statements
continued

5 Segment information continued

Sales between segments are carried out at arm's length.

The Executive Directors assess the performance of each operating segment based on its operating profit before exceptional items and amortisation of acquired intangibles. 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 has five principal customers (comprising groups of entities known to be under common control), Tesco, Ahold, Coop Danmark, ICA Gruppen and Woolworths. 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 and Australasia.

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

	Revenues from external customers		Non-current assets excluding deferred tax assets	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Analysis by geographical area				
United Kingdom – country of domicile	960,919	856,611	180,418	135,760
Netherlands	281,807	296,621	3,967	5,424
Sweden	197,085	206,610	9,322	11,744
Republic of Ireland	88,526	87,696	4,474	5,294
Denmark	105,319	102,866	17,323	19,589
Central Europe	91,239	89,547	26,546	9,374
Australasia	89,772	9,640	244,764	44,760
	1,814,667	1,649,591	486,814	231,945
Analysis by principal customer				
Customer 1	980,224	901,585		
Customer 2	301,296	316,788		
Customer 3	208,230	220,684		
Customer 4	103,233	100,792		
Customer 5	89,772	9,640		
Other	131,912	100,102		
	1,814,667	1,649,591		

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	2019 £'000	2018 £'000
Fees payable to the Company's auditors for the audit of the parent company and consolidated financial statements	148	126
Fees payable to the Company's auditors and its associates for other services:		
– The audit of the Company's subsidiaries pursuant to legislation	342	296
– Other services pursuant to legislation	69	66
– Services relating to taxation	–	11
– All other services including regulatory acquisition work	3	1
Total fees payable to the Company's auditors and its associates	562	500

7 Expenses by nature

Group	2019 £'000	2018 £'000
Changes in inventories of finished goods and goods for resale	(2,207)	(3,399)
Raw materials and consumables used	1,442,533	1,330,709
Employee benefit expense (note 8)	143,942	127,584
Depreciation and amortisation – owned assets	26,422	22,281
Depreciation and amortisation – leased assets	19,000	183
Repairs and maintenance expenditure on property, plant and equipment	15,779	14,123
Transportation expenses	22,145	17,385
Foreign exchange gains	35	(161)
Other expenses	97,655	99,801
Total cost of sales, distribution costs and administrative expenses	1,765,304	1,608,506

8 Employee benefit expense

Group	2019 £'000	2018 £'000
Staff costs during the year		
Wages and salaries	121,794	106,864
Social security costs	14,452	13,096
Share options granted to Directors and employees	2,136	2,688
Other pension costs	5,560	4,936
	143,942	127,584

Group	2019 Number	2018 Number
Average number of persons employed (including Executive Directors) during the year by activity		
Production	4,100	3,249
Administration	1,016	878
	5,116	4,127

Group	2019 £'000	2018 £'000
Key management compensation (including Directors)		
Salaries and short term employee benefits, including termination benefits	8,394	7,242
Post-employment benefits	478	339
Share-based payments	1,495	1,881
	10,367	9,462

Group	2019 £'000	2018 £'000
Directors' emoluments		
Aggregate emoluments	4,288	4,166
Company contribution to money purchase pension scheme	190	181
	4,478	4,347

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 (2018: £nil).

Notes to the financial statements
continued

9 Finance income and costs

Group	2019 £'000	2018 £'000
Finance income		
Interest income on short term bank deposits	91	46
Other interest income	5	3
Finance income	96	49
Finance costs		
Bank borrowings	(3,514)	(1,869)
Interest on lease liabilities	(7,694)	(60)
Other interest expense	(1,501)	(1,086)
Finance costs	(12,709)	(3,015)
Finance costs – net	(12,613)	(2,966)

10 Income tax expense

Group	2019 £'000	2018 £'000
Current income tax		
Current tax on profits for the year	10,681	8,926
Adjustments to tax in respect of previous years	(87)	(253)
Total current tax	10,594	8,673
Deferred income tax		
Origination and reversal of temporary differences	(2,875)	(136)
Adjustments to tax in respect of previous years	277	89
Total deferred tax	(2,598)	(47)
Income tax expense	7,996	8,626

Deferred tax credit directly to equity during the year in respect of employee share schemes amounted to £79,000 (2018: credit £20,000).

Factors affecting future tax charges

The Group operates in numerous tax jurisdictions around the world and is subject to factors that may affect future tax charges including transfer pricing, tax rate changes and tax legislation changes.

The prevailing UK corporation tax rate of 19% was substantively enacted as part of the Finance Act 2019 on 12 March 2019. This rate was due to reduce to 17% from April 2020, however, in the budget on 12 March 2020 it was announced that the main rate of UK corporation tax will be held at 19%. The deferred tax assets and liabilities are calculated reflecting appropriate rates.

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 19% (2018: 19%) applied to profits of the consolidated entities as follows:

	2019 £'000	2018 £'000
Profit before income tax	43,156	43,332
Tax calculated at the standard rate of UK Corporation Tax 19% (2018: 19%)	8,200	8,233
Expenses not deductible for tax purposes	367	737
Joint venture received net of tax	(1,217)	(990)
Adjustments to tax in respect of previous years	190	(164)
Profits taxed at rates other than 19% (2018: 19%)	694	804
Deferred tax on IFRS 16	(280)	–
Other	42	6
Income tax expense	7,996	8,626

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.

Group		2019 Basic	2019 Diluted	2018 Basic	2018 Diluted
Profit attributable to owners of the parent	(£'000)	33,065	33,065	32,534	32,534
Weighted average number of ordinary shares in issue	(thousands)	81,665	81,665	81,482	81,482
Adjustment for share options	(thousands)	–	836	–	981
Adjusted weighted average number of ordinary shares	(thousands)	81,665	82,501	81,482	82,463
Basic and diluted earnings per share	(pence)	40.5	40.1	39.9	39.5

12 Dividends

Group and Company	2019 £'000	2018 £'000
Final dividend in respect of 2018 paid 15.8p per ordinary share (2017: 14.0p)	12,893	11,400
Interim dividend in respect of 2019 paid 6.0p per ordinary share (2018: 5.6p)	4,903	4,569
Total dividends paid	17,796	15,969

The Directors propose a final dividend of 15.4p per share payable on 26 June 2020 to shareholders who are on the register at 29 May 2020. This dividend totalling £12.6m has not been recognised as a liability in these consolidated financial statements.

Dividends paid to non-controlling interests in the year totalled £1,765,000 (2018: £1,664,000).

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 1 January 2018	48,435	215,390	13,695	345	277,865
Exchange adjustments	421	80	(80)	1	422
Additions	29,472	67,853	932	155	98,412
Disposals	(3,019)	(463)	(420)	(149)	(4,051)
At 30 December 2018	75,309	282,860	14,127	352	372,648
Accumulated depreciation					
At 1 January 2018	24,944	160,930	11,269	126	197,269
Exchange adjustments	135	666	(69)	1	733
Charge for the year	3,166	15,682	989	84	19,921
Disposals	(2,939)	(382)	(420)	(83)	(3,824)
At 30 December 2018	25,306	176,896	11,769	128	214,099
Net book amount					
At 1 January 2018	23,491	54,460	2,426	219	80,596
At 30 December 2018	50,003	105,964	2,358	224	158,549
Cost					
At 31 December 2018	75,309	282,860	14,127	352	372,648
IFRS 16 transfer to Right-of-Use asset	(3,484)	–	–	–	(3,484)
Exchange adjustments	(1,940)	(11,328)	(597)	(3)	(13,868)
Acquisition (note 17)	33	817	–	–	850
Additions	23,592	72,176	2,712	75	98,555
Transfer to intangible assets	–	(953)	–	–	(953)
Disposals	–	(1,031)	(199)	(150)	(1,380)
At 29 December 2019	93,510	342,541	16,043	274	452,368
Accumulated depreciation					
At 31 December 2018	25,306	176,896	11,769	128	214,099
IFRS 16 transfer to Right-of-Use asset	(2,600)	–	–	–	(2,600)
Exchange adjustments	(608)	(7,172)	(513)	(2)	(8,295)
Charge for the year	3,586	18,818	1,321	76	23,801
Disposals	–	(876)	(198)	(125)	(1,199)
At 29 December 2019	25,684	187,666	12,379	77	225,806
Net book amount					
At 29 December 2019	67,826	154,875	3,664	197	226,562

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 £37,708,439 (2018: £52,923,000).

Additions includes £5,600,000 transferred from Right-of-use assets in the year (note 15).

14 Intangible assets

Group	Computer software £'000	Brand and customer relationships £'000	Goodwill £'000	Total £'000
Cost				
At 1 January 2018	5,357	21,907	44,793	72,057
Exchange adjustments	(14)	–	–	(14)
Additions	930	–	–	930
At 30 December 2018	6,273	21,907	44,793	72,973
Accumulated amortisation				
At 1 January 2018	3,125	360	–	3,485
Exchange adjustments	(15)	–	–	(15)
Charge for the year	159	2,384	–	2,543
At 30 December 2018	3,269	2,744	–	6,013
Net book amount				
At 1 January 2018	2,232	21,547	44,793	68,572
At 30 December 2018	3,004	19,163	44,793	66,960
Cost				
At 31 December 2018	6,273	21,907	44,793	72,973
Exchange adjustments	(173)	–	–	(173)
Acquisition (note 17)	–	653	2,789	3,442
Additions	830	–	–	830
Transfer from property, plant & equipment	953	–	–	953
Disposals	(25)	–	–	(25)
At 29 December 2019	7,858	22,560	47,582	78,000
Accumulated amortisation				
At 31 December 2018	3,269	2,744	–	6,013
Exchange adjustments	(148)	–	–	(148)
Charge for the year	183	2,438	–	2,621
Disposals	(25)	–	–	(25)
At 29 December 2019	3,279	5,182	–	8,461
Net book amount				
At 29 December 2019	4,579	17,378	47,582	69,539

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

Goodwill Impairment Testing

Goodwill includes £44,793,000 relating to the acquisition of the Seachill business in 2017. The recoverable amount of the Seachill cash generating unit was determined on a value-in-use basis, using cash flow projections based on one-year budgets approved by the board and longer term financial projections, and exceeded the carrying amount. The key assumptions used in the value-in-use calculations are projected EBITDA, the pre-tax discount rate and the growth rate used to extrapolate cash flows beyond the projected period. EBITDA is based on past experience adjusted to take account of the impact of expected changes to sales prices, volumes, business mix and margin. Cash flows are discounted at 11% and a growth rate of 2% has been used to extrapolate cash flows.

Goodwill of £2,789,000 has been recognised, during the year, following the acquisition of SV Cuisine Limited (formerly HFR Food Solutions Limited) in February 2019. SV Cuisine will form a separate cash generating unit for impairment testing purposes, which will begin in the following financial year.

Sensitivity to changes in assumptions

The calculation is most sensitive to changes in the assumptions used for projected cash flow, the pre-tax discount rate and the growth rate. Management considers that reasonably possible changes in assumptions would be an increase in discount rate of one percentage point, a reduction in growth rate of 1 percentage point or a 10% reduction in budgeted cash flow. As an indication of sensitivity, when applied to the value-in-use calculation neither a 1% reduction in growth rate, a 10% reduction in budgeted cash flow, nor a 1% increase in the discount rate would have resulted in an impairment of goodwill in the year.

No indicators of impairment were identified in respect of other, amortised, intangible assets and therefore no impairment review has been undertaken.

Notes to the financial statements
continued

15 Leases

(i) Amounts recognised in the balance sheet

The balance sheet includes the following amounts relating to leases:

Group	Land & Buildings £'000	Equipment £'000	Vehicles £'000	Total £'000
Opening net book amount as at 31 December 2018[1]	77,748	60,725	2,174	140,647
Exchange Adjustments	(4,060)	(1,828)	(77)	(5,965)
Additions	67,975	108	1,432	69,515
Acquisition (note 17)	232	–	–	232
Transfer to tangible fixed assets	(5,660)	–	–	(5,660)
Remeasurements, reclassification and scope changes	6,547	(8,066)	43	(1,476)
Depreciation	(9,842)	(8,260)	(898)	(19,000)
Closing net book amount at 29 December 2019	132,940	42,679	2,674	178,293

Lease liabilities Group	2019 £'000	31 Dec 2018[1] £'000
Current	51,843	22,053
Non-current	132,790	120,895
	184,633	142,948

1. In the previous year the Group only recognised lease assets and lease liabilities in relation to leases that were classified as finance leases under IAS 17, 'Leases'. The assets were presented as property, plant and equipment and the liabilities as part of the group's borrowings. For adjustments recognised on adoption of IFRS 16 on 31 December 2019, refer to note 2.

Maturity analysis – contractual undiscounted cashflows Group	2019 £'000
Less than one year	58,130
One to five years	50,625
More than five years	125,049
Total lease liabilities	233,804

(ii) Amounts recognised in the consolidated income statement

The income statement shows the following amounts related to leases:

Depreciation charge on right-of-use assets Group	2019 £'000	2018[2] £'000
Buildings	9,842	273
Plant & equipment	8,260	–
Vehicles	898	–
	19,000	273
Interest expenses (included in finance costs)	7,694	60
Expenses relating to short-term leases (included in costs of goods sold and administrative expenses)	790	–
Expenses relating to leases of low-value assets that have not been shown above as short-term (included in costs of goods sold and administrative expenses)	22	–

2. Amounts presented in respect of 2018 are in respect of leases previously classified as finance leases under IAS 17, 'Leases'.

The total cash outflow for leases in 2019 was £28,943,000.

16 Investments

Investments in subsidiaries

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

Company	2019 £'000	2018 £'000
At the beginning of the year	157,221	102,985
Additions	–	54,236
At the end of the year	157,221	157,221

The subsidiary undertakings of the Group are:

Subsidiary undertakings	Registered address	Country	Share class	(%) Proportion of shares held by Parent	(%) Proportion of shares held by Group
Hilton Foods Asia Pacific Limited	2-8 Interchange Latham Road, Huntingdon PE29 6YE	UK	£1 Ordinary	–	100
Hilton Food Solutions Limited		UK	£1 Ordinary	–	55
Seachill UK Limited		UK	£1 Ordinary	–	100
Coldwater Seafood UK Limited		UK	£1 Ordinary	–	100
Icelandic UK Limited		UK	£1 Ordinary	–	100
Seachill Limited		UK	£1 Ordinary	–	100
SV Cuisine Ltd (formerly HFR Food Solutions Ltd)		UK	£1 Ordinary	–	100
			£1 Preference	–	100
Hilton Foods Limited	Carson Mcdowell LLP, Murray House, Murray Street, Belfast, Northern Ireland, BT1 6DN	UK	£1 Ordinary	100	100
Hilton Foods UK Limited		UK	£1 Ordinary	–	100
Hilton Meats Holland Limited		UK	£1 Ordinary	–	80
Hilton Food Group (Europe) Limited		UK	£1 Ordinary	–	100
Hilton Food.com Limited		UK	£1 Ordinary	–	100
Hilton Foods Holland 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 Belgium BV	Rue Breydel 36, 1040 Brussels	Belgium	€1 Ordinary	–	100
Hilton Foods Australia Pty Limited	267 Dohertys Road, Truganina, VIC 3029	Australia	AUD 1 Ordinary	–	100
Hilton Food Solutions Australasia Pty Limited		Australia	AUD 1 Ordinary	–	55
Hilton Foods New Zealand Limited	Simpson Grierson, 88 Shortland St, Auckland 1010	New Zealand	NZD 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	2019 £'000	2018 £'000
At the beginning of the year	5,209	10,273
Acquisitions	5,246	–
Profit for the year	6,406	5,213
Dividends received	(4,995)	(9,958)
Effect of movements in foreign exchange	(108)	(319)
At the end of the year	11,758	5,209

Notes to the financial statements
continued

16 Investments continued

Where relevant, management accounts for the joint venture have been used to include the results up to 29 December 2019. The Group's share of the net assets, income and expenses of the joint venture are detailed below:

The Group acquired 50% of the share capital of Dalco Food B.V. in the year.

	2019 £'000	2018 £'000
Net assets	11,758	5,209
Income	8,233	7,447
Taxation	(1,827)	(2,234)
Profit after tax	6,406	5,213

The joint ventures of the Group are:

Joint venture	Registered address	Country	Share class	(%) Proportion of ordinary shares held by Parent	(%) Proportion of ordinary shares held by Group
Woolworths Meat Co. Pty Limited	1 Woolworths Way, Bella Vista, NSW 2153	Australia	AUD 1 Ordinary	–	50
Sohi Meat Solutions – Distribuicao de Carnes SA	Zona Industrial de Santarem – Quinta de Mocho District, Santarem, 2005 002 Varzea	Portugal	€5 Ordinary	–	50
Foods Connected Limited	12-16 Castle Lane, Belfast, Northern Ireland BT1 5DA	UK	£1 Ordinary	–	50
Foods Connected Australia Pty Limited	62 Burwood Road, Burwood, NSW 2134	Australia	AUD 1 Ordinary	–	50
Dalco Food BV	Sweelinckstraat 8, 5344 AE Oss	Netherlands	€45.38 Ordinary	–	50

17 Business combinations

On 28 February 2019 the Group completed the acquisition of SV Cuisine Limited (formerly HFR Food Solutions Limited) a sous vide manufacturer based in Wednesbury, West Midlands, UK.

The Group acquired 100% of the share capital for consideration of £100 in cash, with deferred consideration, the value of which is dependent on future performance of the business payable three years after completion.

	£'000
Property, plant and equipment	850
Lease: Right-of-use asset	232
Customer relationships	653
Inventories	1,370
Trade and other receivables	85
Cash and cash equivalents	591
Trade and other payables	(2,954)
Lease liabilities	(174)
Deferred tax	(124)
Goodwill	2,789
Fair value of assets acquired	3,318
Consideration:	
Payable on completion	–
Estimated value of deferred consideration	3,318
Total	3,318

The above reflects the final assessment of fair value.

Goodwill has arisen and mainly relates to the strategic benefits for Hilton, of diversifying its product portfolio into the sous vide market.

Since the date of acquisition, SV Cuisine has contributed revenue of £23.4m to the Group and, after allowing for start-up and integration costs, has realised a loss after-tax of £1.6m.

18 Inventories

Group	2019 £'000	2018 £'000
Raw materials and consumables	74,581	67,641
Finished goods and goods for resale	16,756	14,549
	91,337	82,190

The cost of inventories recognised as an expense and included in cost of sales amounted to £1,440,326,000 (2018: £1,327,310,000). The Group charged £702,000 in respect of inventory write-downs (2018: £157,000). The amount charged has been included in cost of sales in the income statement.

19 Trade and other receivables

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Trade receivables	186,261	141,439	–	–
Less: provision for impairment of trade receivables	(569)	(349)	–	–
Trade receivables – net	185,692	141,090	–	–
Amounts owed by Group undertakings	–	–	10,272	272
Amounts owed by related parties (see note 29)	465	5	–	–
Other receivables	19,528	24,965	–	–
Prepayments	9,588	7,632	–	–
	215,273	173,692	10,272	272
Less: Non-current other receivables	(662)	(1,227)	–	–
	214,611	172,465	10,272	272

Amounts owed by Group undertaking to the company are unsecured interest free and repayable on demand.

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

	Group		Company	
Currency	2019 £'000	2018 £'000	2019 £'000	2018 £'000
UK Pound	56,570	36,705	10,272	272
Euro	46,195	60,276	–	–
Swedish Krona	13,854	14,767	–	–
Danish Krone	24,303	25,045	–	–
Polish Zloty	8,045	6,511	–	–
Australian Dollar	65,711	30,325	–	–
New Zealand Dollar	595	–	–	–
Other	–	63	–	–
	215,273	173,692	10,272	272

The Group have performed an assessment of the expected credit losses across the portfolio of trade receivables and contract assets. In determining the expected credit loss, the Group has given due consideration to the historic credit losses arising in prior years and of current and forward looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

To measure the expected credit loss, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The Group has concluded that the expected credit loss results in a provision being recognised of £569,000 (2018: £349,000).

Trade receivables and contract assets are written off where there is no reasonable expectation of recovery.

Impairment losses on trade receivables and contract assets are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

Notes to the financial statements
continued

19 Trade and other receivables continued

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

Group	2019 £'000	2018 £'000
At the beginning of the year	349	402
Provision for receivables impairment	340	45
Receivables written off during the year as uncollectable	(120)	(98)
At the end of year	569	349

20 Cash and cash equivalents

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Cash at bank and on hand	110,514	80,234	122	82

21 Other financial asset

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Bank treasury deposit maturing after three months	–	7,813	–	–

22 Borrowings

Group	2019 £'000	2018 £'000
Current		
Bank borrowings	21,969	5,118
Non-current		
Bank borrowings	175,370	107,923
Total borrowings	197,339	113,041

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	2019 £'000	2018 £'000
UK Pound	68,244	51,377
Euro	25,728	23,478
Polish Zloty	7,502	–
Australian Dollar	85,614	38,186
New Zealand Dollar	10,251	–
	197,339	113,041

Bank borrowings are repayable in quarterly instalments from 2019 – 2022 with interest charged at LIBOR (or equivalent benchmark rates) plus 1.3% – 1.6%. Bank borrowings are subject to joint and several guarantees from each active Group undertaking.

The Group has undrawn committed loan facilities of £71.1m (2018: £201.0m) with the loan facilities expiring in 2022.

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

Group net debt of £88,247,000 (2018: net debt of £26,787,000) comprises borrowings, noted above, of £197,339,000 (2018: £113,041,000) cash and cash equivalents of £110,514,000 (2018: £80,234,000), other financial assets of £nil (2018: £7,813,000), and finance leases previously recognised under IAS 17 of £1,422,000 (2018: £1,793,000). Including total lease liabilities Group net debt is £271,458,000 (2018: £26,787,000).

23 Trade and other payables

	Group 2019 £'000	Group 2018 £'000	Company 2019 £'000	Company 2018 £'000
Trade payables	272,433	228,659	–	–
Amounts owed to related parties (see note 29)	66	–	–	–
Social security and other taxes	6,677	6,848	–	–
Accruals and deferred income	42,595	39,378	–	–
	321,771	274,885	–	–

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

24 Deferred income tax

Group	Accelerated capital allowances £'000	Acquired intangible assets £'000	IFRS 16 Leases £'000	Other timing differences £'000	Total £'000
At 1 January 2018	(1,120)	(4,094)	–	672	(4,542)
Exchange differences	24	–	–	–	24
Income statement (charge)/credit	(485)	453	–	79	47
Adjustment in respect of employee share schemes	–	–	–	20	20
At 30 December 2018	(1,581)	(3,641)	–	771	(4,451)
Exchange differences	52	–	–	–	52
Acquisition (note 17)	–	(124)	–	–	(124)
Income statement credit	444	463	1,612	79	2,598
Adjustment in respect of employee share schemes	–	–	–	79	79
At 29 December 2019	(1,085)	(3,302)	1,612	929	(1,846)

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

Group	2019 £'000	2018 £'000
Deferred tax liabilities	(4,116)	(6,104)
Deferred tax assets	2,270	1,653
	(1,846)	(4,451)

Other timing differences principally relate to share-based payments. The deferred income tax liability above includes £423,000 (2018: £439,000) which is estimated to reverse within 12 months. The deferred income tax asset above is not expected to reverse within 12 months.

Notes to the financial statements
continued

25 Ordinary shares

	Number of shares (thousands)	Group 2019 £'000	Group 2018 £'000	Company 2019 £'000	Company 2018 £'000
Issued and fully paid ordinary shares of 10p each					
At 31 December 2018/1 January 2018	81,598	8,160	8,135	8,160	8,135
Issue of new shares relating to employee incentive schemes	127	13	25	13	25
At 29 December 2019/30 December 2018	81,725	8,173	8,160	8,173	8,160

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

26 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 (EPS) compound growth target. An additional performance measure for total shareholder return (TSR) was introduced during the year whereby 70% of the award is based on EPS performance and 30% is based on TSR.

Awards will vest on a sliding scale as follows:

- EPS – 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%-15% per year
- TSR – 10% median performance against the constituents of the FTSE 250 (excluding investment trusts) increasing to full vesting for this part of an award for upper quartile performance

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:

	Sharesave Options ('000)	Sharesave Exercise price (pence)	Long Term Incentive Options ('000)	Long Term Incentive Exercise price (pence)
At 1 January 2018	659	544.80	1,559	–
Granted	355	830.00	407	–
Exercised	(250)	420.11	(324)	–
Lapsed	(65)	667.29	(193)	–
At 30 December 2018	699	722.59	1,449	–
Granted	243	950.00	463	–
Exercised	(127)	501.30	(333)	–
Lapsed	(65)	775.28	(106)	–
At 29 December 2019	750	813.56	1,473	–

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

Expiry date	Type of scheme	Status	Exercise price (pence)	Number options 2019 ('000)	Number options 2018 ('000)
December 2018	Sharesave	Exercisable	420.00	–	3
December 2019	Sharesave	Exercisable	496.25	1	123
December 2020	Sharesave	Not exercisable	645.50	219	241
December 2021	Sharesave	Not exercisable	830.00	293	332
February 2023	Sharesave	Not exercisable	950.00	237	–
April 2024	Long Term Incentive Plan	Exercisable	nil cost	56	66
April 2025	Long Term Incentive Plan	Exercisable	nil cost	88	113
April 2026	Long Term Incentive Plan	Exercisable	nil cost	106	469
April 2026	Long Term Incentive Plan	Not exercisable	nil cost	399	408
May/July 2027	Long Term Incentive Plan	Not exercisable	nil cost	374	393
May 2028	Long Term Incentive Plan	Not exercisable	nil cost	450	–
Total				2,223	2,148

The fair value of options granted during 2019 determined using the Black-Scholes valuation model ranged from 154p to 945p per option. The significant inputs into the model were the exercise price shown above, volatility of 28% 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 0.49% to 0.63%. See note 8 for the total expense recognised in the income statement for share options granted to Directors and employees.

27 Cash generated from operations

Group	2019 £'000	2018 £'000
Profit before income tax	43,156	43,332
Finance costs – net	12,613	2,966
Operating profit	55,769	46,298
Adjustments for non-cash items:		
Share of post tax profits of joint venture	(6,406)	(5,213)
Depreciation of property, plant and equipment	42,801	19,921
Amortisation of intangible assets	2,621	2,543
Amortisation of contract assets – charged to revenue	1,273	2,068
Gain on disposal of non-current assets	(22)	(81)
Adjustment in respect of employee share schemes	(1,445)	(238)
Changes in working capital:		
Inventories	(9,494)	(30,742)
Trade and other receivables	(49,054)	(34,006)
Prepaid expenses	(1,956)	660
Trade and other payables	51,272	53,362
Accrued expenses	5,017	11,594
Cash generated from operations	90,376	66,166

The parent company has no operating cash flows.

Notes to the financial statements
continued

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

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Property, plant and equipment	32,793	28,785	–	–

In addition to the above, lease liabilities due in less than one year include £37.5m of commitments to purchase leased plant and machinery subject to lease purchase options that the group are reasonably certain to exercise.

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

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

Group sales	2019 £'000	2018 £'000
Sohi Meat Solutions Distribuicao de Carnes SA – fee for services	3,246	3,236
Sohi Meat Solutions Distribuicao de Carnes SA – recharge of joint venture costs	352	790
Dalco B.V.	117	–

Group purchases	2019 £'000	2018 £'000
Foods Connected Limited	340	142

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

	Owed from related parties	
Group	2019 £'000	2018 £'000
Woolworths Meat Co. Pty Limited	–	5
Foods Connected Limited	–	170
Sohi Meat Solutions Distribuicao de Carnes SA	348	3,940
Dalco B.V.	117	–
	465	4,115

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

	Owed to related parties	
Foods Connected Limited	66	–

The acquisition of SV Cuisine Limited (formerly HFR Food Solutions Limited) is considered to be a related party transaction as prior to acquisition Philip Heffer, the Hilton Food Group CEO, held a 30% interest in and was a director of the acquired business. Additionally Graham Heffer and Robert Heffer, both directors of the Group's subsidiary Hilton Food Solutions Limited, each held a 30% shareholding in, and were, and still are, directors of SV Cuisine Limited.

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

Company	2019 £'000	2018 £'000
Hilton Foods Limited – dividend received	27,200	14,800

At the year end £10,272,000 was owed by Hilton Foods Limited (2018: £272,000) and £nil (2018: £nil) was owed by Hilton Foods UK Limited.

Details of key management compensation are given in note 8.

30 Financial instruments by category

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

Group	Loans and receivables 2019 £'000	Loans and receivables 2018 £'000
Assets as per balance sheet		
Trade and other receivables	205,685	166,060
Other financial asset	–	7,813
Cash and cash equivalents	110,514	80,234
	316,199	254,107

Group	Other financial liabilities at amortised cost 2019 £'000	Other financial liabilities at amortised cost 2018 £'000
Liabilities as per balance sheet		
Trade and other payables	315,094	268,037
Borrowings	197,339	114,834
	512,433	382,871

In addition to the above, amounts owed to the Company by Group undertakings were £10,272,000 (2018: £272,000) are classified as 'loans and receivables'.

31 Alternative performance measures

The Group's performance is assessed using a number of alternative performance measures (APMs).

The Group's alternative profitability measures are presented before exceptional items, amortisation of certain intangible assets acquired through business combinations and the impact of IFRS 16 (as summarised in note 2).

The measures are presented on this basis, as management believe they provide useful additional information about the Group's performance and aids a more effective comparison of the Group's trading performance from one period to the next.

Adjusted profitability measures are reconciled to unadjusted IFRS results on the face of the income statement below.

52 weeks ended 29 December 2019

	Reported £'000	Add back: IFRS 16 Depreciation and interest £'000	Less: IAS 17 Lease accounting costs £'000	Reported – excl IFRS 16 £'000	Add back: Amortisation of acquisition intangibles £'000	Adjusted £'000
Operating profit	55,769	18,820	(22,315)	52,274	2,438	54,712
Net finance costs	(12,613)	7,641	–	(4,972)	–	(4,972)
Profit before income tax	43,156	26,461	(22,315)	47,302	2,438	49,740
Profit for the period	35,160	24,849	(22,315)	37,694	1,975	39,669
Less non-controlling interests	(2,095)	(370)	364	(2,101)	–	(2,101)
Profit attributable to members of the parent	33,065	24,479	(21,951)	35,593	1,975	37,568
Depreciation and amortisation	46,673*	(18,820)	–	27,853	(2,438)	25,415
EBITDA	102,442	–	(22,315)	80,127	–	80,127
Earnings Per Share	pence			pence		pence
Basic	40.5			43.6		46.0
Diluted	40.1			43.1		45.5

* Includes £1,273,000 amortisation of contract assets charged to revenue.

Notes to the financial statements
continued

31 Alternative performance measures continued
52 weeks ended 30 December 2018

	Reported £'000	Add back: Amortisation of acquisition intangibles £'000	Adjusted £'000
Operating profit	46,298	2,384	48,682
Net finance costs	(2,966)	–	(2,966)
Profit before income tax	43,332	2,384	45,716
Profit for the period	34,706	1,931	36,637
Less non-controlling interests	(2,172)	–	(2,172)
Profit attributable to members of the parent	32,534	1,931	34,465
Depreciation and amortisation	24,451	(2,384)	22,067
EBITDA	70,749	–	70,749
Earnings Per Share	pence		pence
Basic	39.9		42.3
Diluted	39.5		41.8

Segmental operating profit reconciles to adjusted segmental operating profit as follows:

52 weeks ended 29 December 2019

	Reported £'000	Add back: IFRS 16 Depreciation £'000	Less: IAS 17 Lease accounting costs £'000	Reported – excl IFRS 16 £'000	Add back: Amortisation of acquisition intangibles £'000	Adjusted £'000
Western Europe	50,740	5,405	(5,488)	50,657	2,438	53,095
Central Europe	2,299	467	(628)	2,138	–	2,138
Australasia	12,840	12,948	(16,199)	9,589	–	9,589
Central costs	(10,110)	–	–	(10,110)	–	(10,110)
Total	55,769	18,820	(22,315)	52,274	2,438	54,712

52 weeks ended 30 December 2018

	Reported £'000	Add back: Amortisation of acquisition intangibles £'000	Adjusted £'000
Western Europe	49,072	2,384	51,456
Central Europe	2,307	–	2,307
Australasia	5,522	–	5,522
Central costs	(10,603)	–	(10,603)
Total	46,298	2,384	48,682

Registered office and advisors

Registered office
2-8 The Interchange
Latham Road
Huntingdon
Cambridgeshire
PE29 6YE

Advisors
Corporate brokers
Panmure Gordon (UK) Limited
One New Change
London
EC4M 9AF

Numis Securities Limited
The London Stock Exchange Building
10 Paternoster Square
London
EC4M 7LT

Legal advisor
Taylor Wessing LLP
5 New Street Square
London
EC4A 3TW

Independent auditors
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Waterfront Plaza
8 Laganbank Road
Belfast
BT1 3LR

Registrar
Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA

Financial Public Relations
Citigate Dewe Rogerson Limited
8th Floor
Holborn Gate
26 Southampton Buildings
London
WC2A 1AN

Designed and produced by:
Radley Yeldar | www.ry.com

Hilton Food Group plc
2-8 The Interchange
Latham Road
Huntingdon
Cambridgeshire
PE29 6YE

www.hiltonfoodgroupplc.com