

# The leading specialist international food packing business



## Financial highlights

## Revenue (£m)

£1,649.6m



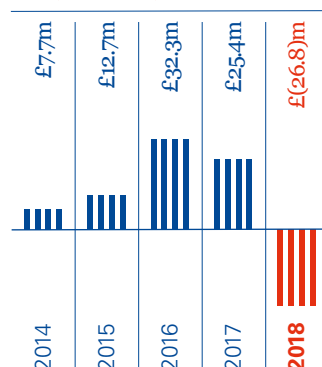
## Operating profit (£m)

£46.3m



## Net cash/(debt) (£m)

£(26.8)m



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[www.hiltonfoodgroupplc.com](http://www.hiltonfoodgroupplc.com)

# 2018 Highlights



## Hilton agrees to purchase 50% shareholding in leading vegetarian manufacturer, Dalco Food B.V.

Dalco is a leading vegetarian product manufacturer based in Oss, the Netherlands.

Hilton has agreed to enter into a joint venture agreement with Dalco's shareholders, which includes an option for the remaining 50% of Dalco's shares in 2024. This agreement completed in January 2019 following competition authority clearance.

This agreement with Dalco enables Hilton to significantly expand its offering in the fast-growing vegetarian market. Hilton will provide its manufacturing expertise and capital resources to enable Dalco to expand its range into the next generation of vegetarian products servicing not only Dalco's existing customers but also Hilton's customer base.

### About Dalco:

Dalco Food B.V. was established by the Wagemakers family in 1975. Today Dalco develops and supplies vegetarian products to a broad range of customers worldwide from its two facilities located in the Netherlands.



“

This agreement represents an exciting opportunity for Hilton to broaden its offering in a growing segment of the market and meet our customers' demands for Hilton to supply them with a range of innovative, high quality vegetarian products. We look forward to seeing the positive effects of our tried and tested business model on this relationship, which will be supported by our flexible and versatile approach to meeting local requirements.”

**Philip Heffer**

Chief Executive Officer of Hilton

“

We are pleased to have signed this joint venture agreement with Hilton and look forward to the benefits and expertise that this brings to our business and that we can bring to Hilton's business. It will enable us to expand our operations and continue to focus on giving our customers the right choices at competitive prices. I value the mutual respect and cultural similarities which will provide a strong base for a successful joint venture.”

**Marian Wagemakers**

Chief Executive Officer of Dalco



For more information visit:  
[www.hiltonfoodgroupplc.com/press-releases](http://www.hiltonfoodgroupplc.com/press-releases)

## Launch of fresh convenience foods in Central Europe

- Sandwiches, wraps, baguettes and garlic bread launched in 2018
- Pizzas relaunched
- Building extension due to open in 2019
- Ready meals, soups and hummus due to launch in 2019



## Construction of new factory in Brisbane, Australia

### Factory size 43,000m<sup>2</sup>

- Hilton's biggest factory to date – due to open ahead of schedule in Q3 2019
- A total plot size of 78,000m<sup>2</sup>

### Capacity of more than 85,000 tonnes/year

- Space for 23 high speed production lines
- More than three million packs of meat will be produced in an average week
- Capability to produce and pack 900 sausages per minute without any human contact
- Fully automated warehouse with 14 robots receiving 100 pallets of raw materials per hour and picking and despatching more than 80 pallets per hour

### More than 6,000 roof-mounted solar panels

- The second largest privately-owned rooftop solar power installation in Australia
- 1.84 MegaWatt rating supplying around 50% of the site's total power requirements



# Where we operate

## United Kingdom

Location: **Huntingdon**

Customer: **Tesco UK**

Commenced production: **1994**

Location: **Grimsby**

Main customer: **Tesco UK**

Acquired: **2017**

## Netherlands

Location: **Zaandam**

Customer: **Albert Heijn**

Commenced production: **2000**

## Ireland

Location: **Drogheda**

Customer: **Tesco Ireland**

Commenced production: **2004**

## Denmark

Location: **Aarhus**

Customer: **Coop Danmark**

Commenced production: **2011**

## Sweden

Location: **Vasteras**

Customer: **ICA Gruppen**

Commenced production: **2004**

## Central Europe

Location: **Tychy, Poland**

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

Commenced production: **2006**

## Portugal

Location: **Santarem**

Customer: **Sonae**

Commenced joint venture: **2017**

## Australia

Locations: **Bunbury and Melbourne**

Customer: **Woolworths**

Commenced joint venture: **2013**

Location: **Brisbane**

Customer: **Woolworths**

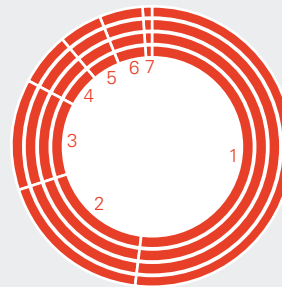
Under construction

## New Zealand

Location: **Auckland**

Customer: **Countdown**

Under construction



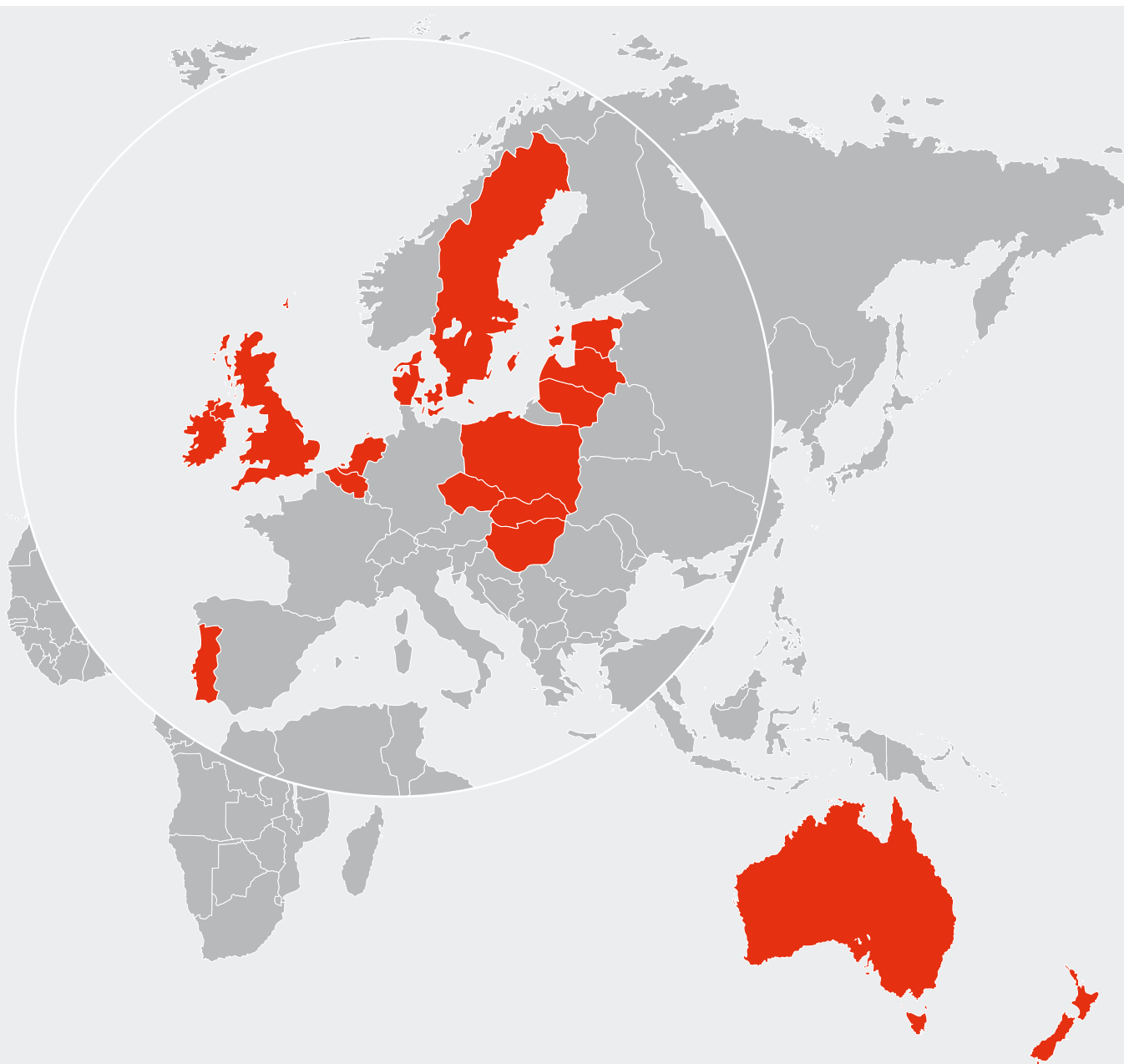
### Revenue by location

**£1,649.6m**

1. United Kingdom	52%
2. Netherlands	18%
3. Sweden	13%
4. Denmark	6%
5. Central Europe	5%
6. Ireland	5%
7. Australia	1%



Read more about geographical spread and our performance: **pages 11 – 15**



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Production facilities



4,718

Employees



# Strategic report

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## Chairman's introduction

“

We continue to build a significantly bigger and more diversified business with broad foundations for further growth.”

**Robert Watson OBE**  
Executive Chairman



## Strategic progress

I am pleased to report continued progress in 2018 against our strategic objectives and further expansion of our global footprint.

In March we commenced production in Australia from a satellite facility in Brisbane, Queensland. This production will transfer across to our new facility nearby which is now expected to open in the third quarter of 2019. In July we restructured the Australian joint venture taking operational control of the existing plants in Bunbury, Western Australia and Melbourne, Victoria and also signed 15 year long term supply agreements with our customer Woolworths. In October we agreed to invest in the leading vegetarian product manufacturer, Dalco based in Oss in the Netherlands, which completed following competition authority clearance since the year end. This deal includes an option for the remaining 50% of Dalco's shares in 2024. This enables Hilton to diversify into a further protein and significantly expand its product offering in the fast-growing vegetarian market. Seachill was integrated successfully during the year with further business wins secured.

We have continued to deliver on our strategies to build a significantly bigger and more diversified business with broad foundations for further growth.

## Group performance

We grew our volume in 2018 maintaining a trend of continuous growth achieved in every year since Hilton's flotation in 2007. There was strong operating profit growth of over 27% including a full year of trading at Seachill following the 2017 acquisition and commencement of production in Australia whilst continuing to invest in people and infrastructure to support growth. Growth in basic earnings per share compared to last year was over 13%.

Hilton continued to generate strong operating cash flows during 2018 although, as expected, significant capacity investment resulted in year end net debt of £26.8m, compared with net cash of £25.4m at the end of last year. Our 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 the Group's progressive dividend policy maintained since flotation remains appropriate, given both the strategic progress achieved in 2018 and Hilton's continuing strong level of cash generation. With the proposed final dividend of 15.8p per ordinary share, total dividends in respect of 2018 will be 21.4p per ordinary share, an increase of 12.6% 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.

During the year Colin Smith retired as Non-Executive Chairman having made a significant contribution to Hilton's successful growth over the last eight years culminating in Hilton's entry into the FTSE 250 Index in June 2018. I transitioned into the role of Executive Chairman with Philip Heffer being promoted to CEO. Angus Porter was appointed as a new independent Non-Executive Director. I would like to thank my colleagues on the Board for their support, counsel and expertise during the year.

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

## Sustainability

At Hilton Food Group we recognise our responsibility, as one of the leading global companies in food protein, to support a balanced and collaborative approach to all aspects of sustainability. Our total partnership approach engages our leadership teams with our customers and suppliers to address the risks and demonstrate best practice. Our commitments show that we take environmental and social sustainability seriously and the progress we make through collaboration will further strengthen our business partnerships and facilitate sustainable growth.

## Outlook and current trading

Hilton's operating performance in the early months of 2019 has been in line with the Board's expectations. We completed the acquisition of a UK based sous vide manufacturer and continue to explore opportunities for further geographical expansion in both domestic and overseas markets.

With regard to Brexit, through our predominantly local sourcing and operating model together with mitigating actions we believe that the Hilton business is sufficiently resilient to withstand the Brexit uncertainties whilst minimising disruption. Further details are in the Risk management section.

Short and medium term growth is underpinned by new facilities due to open in Australia and New Zealand in 2019 and 2020 respectively, expanding the fish category and, developing the vegetarian category through Dalco, fresh convenience food category in Central Europe and ready to cook sous vide category.

## Annual General Meeting

This year's AGM will be held at the Old Bridge Hotel, 1 High Street, Huntingdon, Cambridgeshire PE29 3TQ on 21 May 2019 at noon and my colleagues and I very much look forward to seeing those of you who are able to attend.

## Robert Watson OBE

Executive Chairman  
26 March 2019

## Chief Executive's summary

“

We have successfully expanded our product range into new proteins and categories such as fish, vegetarian, sous vide, food service and fresh convenience foods.”

**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 has generated growth over an extended period of time and with a strong reputation, well invested modern facilities and a robust balance sheet, the Group remains well positioned for continued success.

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 measured geographical expansion and range extension, whilst at the same time actively developing, enriching, deepening and expanding the scope of our existing business partnerships, playing a full and proactive role in supporting our customers and the successful development of their brands. We have successfully expanded our product range into new proteins and categories such as fish, vegetarian, sous vide, food service and fresh convenience foods.



## Business model

The Hilton business model is proven and sustainable, whilst being relatively simple and straightforward. We operate large scale, extensively automated and robotised food processing and packing 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 fourteen 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 2004-2018 has totalled £336m.

We have facilities in six countries in Europe, each run by a local management team enhanced by specialist central leadership, expertise, advice and support. These businesses operate under the terms of five to fifteen 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.

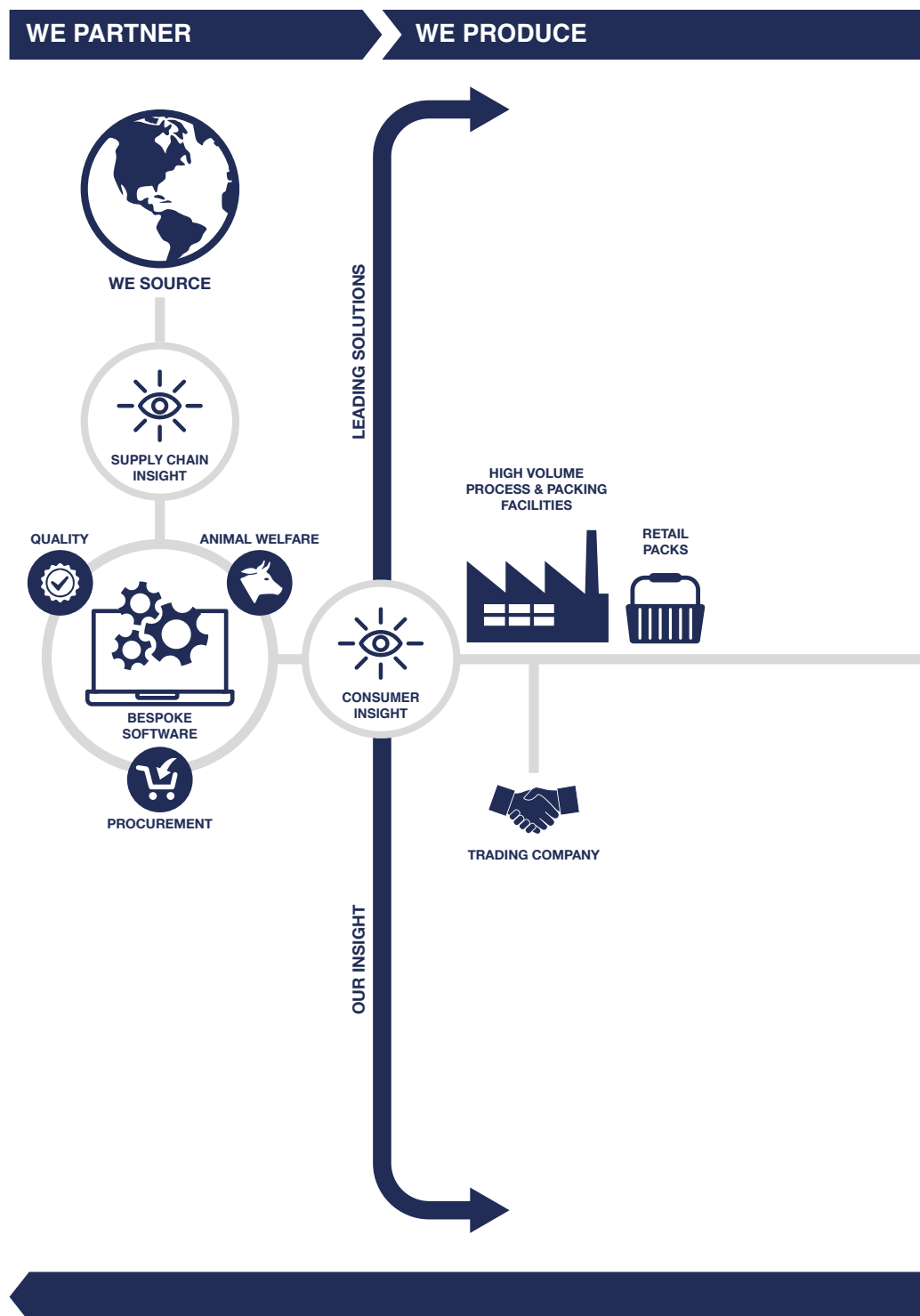
In Australia and Portugal, together with our retailer partners, facilities are operated under joint venture companies who receive volume related management fees.

# Chief Executive's summary

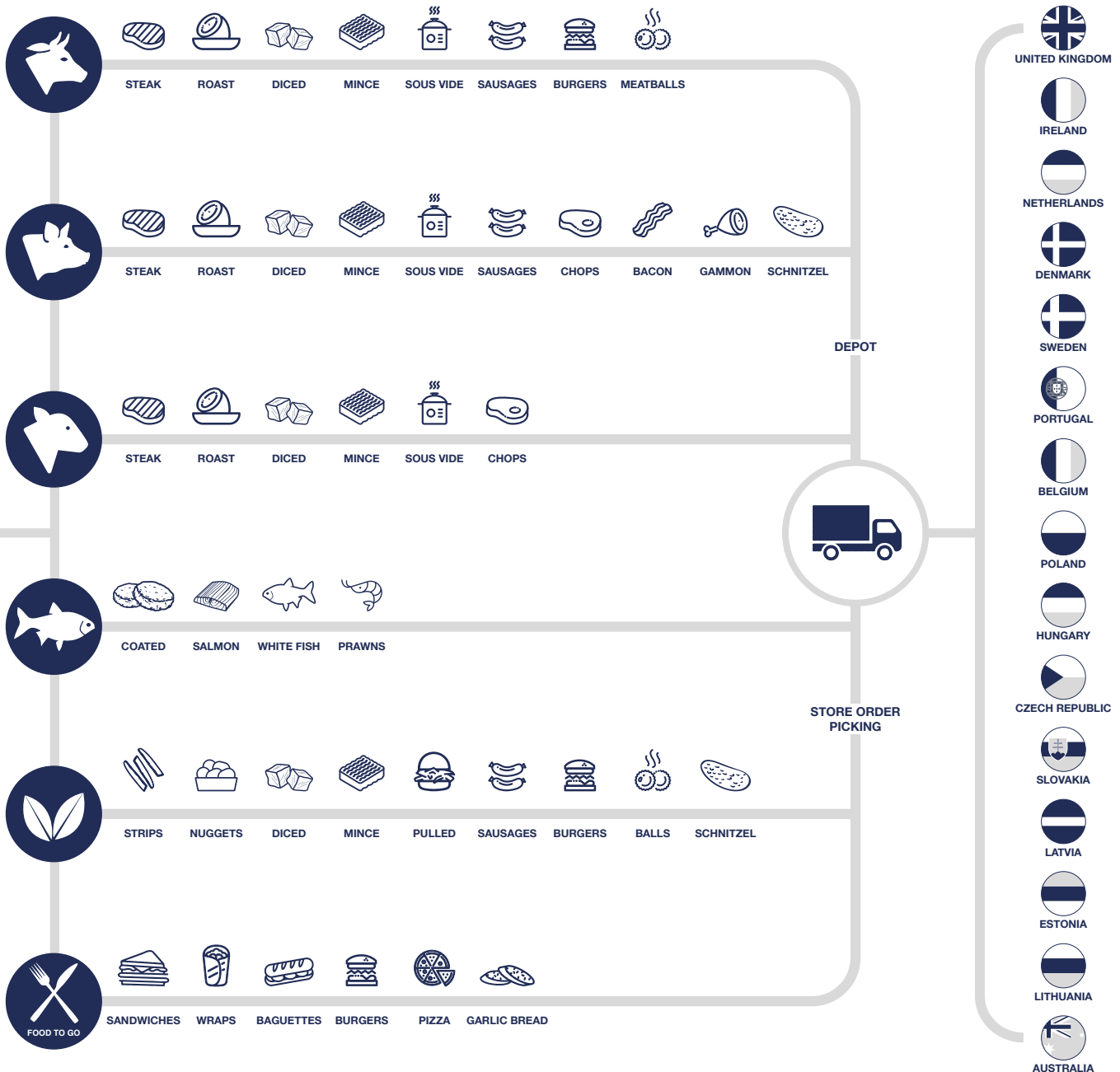
continued

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



## FULL TRACEABILITY

# Chief Executive's summary

## continued

### Business model – 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.

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

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

### 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 it has forged and maintained with successful retail partners over many years. We are an international business and operate production facilities in six countries across Europe and work with joint venture partners in two further countries. Products from these facilities are sold in fourteen European countries and Australia.

### Progress in 2018

Following the acquisition of Seachill last year we have successfully integrated the business into the Group. Seachill traded well during the year and secured new business for shellfish and also coated fish which will commence in early 2019.

We commenced production in Australia to support our customer from a satellite facility in Brisbane, Queensland. The construction of our new facility is proceeding well and is now expected to open ahead of schedule in Q3 2019. We restructured the joint venture with Woolworths taking operational control of two facilities and signed 15 year long term supply agreements. Following a transition period Hilton will purchase the relevant plant assets in 2020. Work is proceeding well on the construction of a new facility in New Zealand which is due to open in 2020.

There was agreement during the year to form a joint venture with Dalco, a Dutch leading vegetarian product manufacturer. This transaction completed since the year end following competition authority clearance. 2018 also saw the launch of fresh convenience foods in Central Europe.

In 2018 over 70% of the Group's volumes were produced in countries outside the UK.

## 1994

First facility opened in Huntingdon, UK supplying Tesco

## 2000

Hilton took over an existing facility in Zaandam, Netherlands supplying Albert Heijn which also has stores in Belgium

## 2004

New factories built in Drogheda, Ireland supplying Tesco Ireland and Vasteras, Sweden supplying ICA Gruppen

## 2006

A new facility in Tychy, Poland which supplies Ahold and Tesco stores in four Central European countries and Rimi stores in three Baltic countries

## 2011

A new Danish factory near Aarhus supplying Coop Danmark

## 2013

Joint venture formed with Woolworths in Australia managing facilities at Bunbury in Western Australia and a new facility in Melbourne, Victoria which opened in 2015

## 2016

Launch of Hilton Food Solutions UK trading business and supply to Ocado, UK

## 2017

Joint venture company formed with Sonae to manage a factory in Santarem, Portugal

Acquisition of Seachill, a leading chilled UK based fish processor

Investment in Foods Connected which manages market intelligence data

## 2018

Commenced production in Australia from a satellite facility in Brisbane, Queensland

Australian joint venture restructured taking operational control of two facilities

Agreement to invest in Dalco, a leading Dutch vegetarian producer

### Currency translation

The wide geographical spread of the Group increases its resilience by minimising its reliance on any one individual economy. This means that Hilton's results, as reported in Sterling, are sensitive to changes in the value of Sterling compared to the range of overseas currencies in which the Group trades. During 2018, the average exchange rates for the Euro and Polish Zloty appreciated against Sterling by 1.0% and Danish Krone by 0.8% with the Swedish Krona and Australian Dollar depreciating against Sterling by 5.1% and 5.9% respectively.

### Performance overview

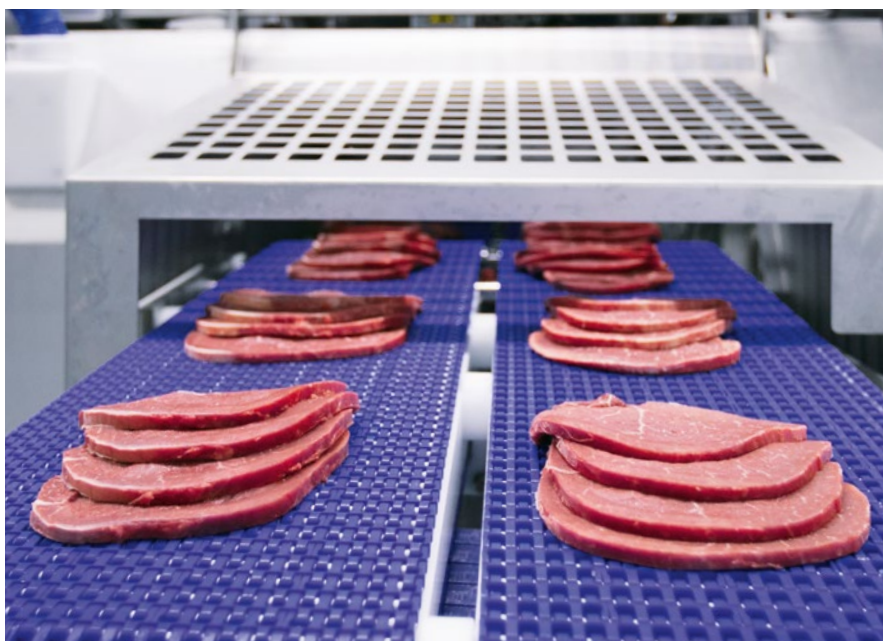
2018 saw a significant expansion of Hilton's operations thereby building a significantly bigger more diversified business.

Overall volume which includes the 50% share of the Australian and Portuguese joint venture activities increased by 13.5%. The performance of our three operating segments is outlined below.

#### Western Europe

**Adjusted operating profit of £51.5m (2017: £41.5m) on turnover of £1,550.4m (2017: £1,265.7m)**

This operating segment covers the Group's businesses in the UK, Ireland, Holland, Sweden, Denmark and Portugal. Volume growth was 11.6% mainly driven by the UK including the first full year of Seachill, and Ireland although volumes were slightly lower in Holland, Sweden and Denmark. Sales on a constant currency basis grew by 22.1% reflecting the higher volumes boosted by higher unit fish raw material pricing. Operating margins were unchanged at 3.3% (2017: 3.3%).



# Chief Executive's summary

## continued

### Central Europe

**Operating profit of £2.3m (2017: £1.2m) on turnover of £89.6m (2017: £91.6m)**

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 increased by 4.9% with constant currency sales up 8.2%. Operating margins recovered to 2.6% (2017: 1.3%) as the business continues its performance resurgence.

There was a limited launch of fresh convenience foods produced from a secondary facility including baguettes, sandwiches, wraps and garlic bread while we extend our facility in Tychy.

### Central costs and other

**Adjusted net operating cost £5.1m (2017: £4.4m) on turnover of £9.6m (2017: £nil)**

This segment includes the results of our operations in Australasia and our central costs.

In Australia the Group operates a joint venture with Woolworths, under which it earns a fifty per cent 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 and also commenced production from a satellite facility in Brisbane. Volume increased by 36.2% compared with last year. We continue to construct a new facility in Brisbane which is now expected to open earlier in the third quarter of 2019 and additionally we are building a new facility in New Zealand. Our profit including service fee income and turnover after deducting operating costs during the year was £5.5m (2017: £2.8m).

Central costs were higher at £10.6m (2017: £7.2m excluding exceptional one-off acquisition costs of £2.8m) as we progressively increase resources to manage our growth successfully.



Site of New Zealand facility.

### 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 Corporate and social responsibility report.

The Group currently employs over 4,700 employees 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 2018 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 fish 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  
26 March 2019

## Performance and financial review

“

Hilton saw strong growth in volumes, sales, profitability and basic earnings per share.”

**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 2018. Hilton's overall financial performance saw strong growth in volumes, sales, profitability and basic earnings per share. Cash flow generation was strong with significant investment in facilities.

The Board uses adjusted profit, before acquired intangibles amortisation and exceptional items, to measure performance and considers this metric better reflects the underlying performance of the business. Adjustments made to reported IFRS metrics comprise adding back acquisition intangibles amortisation of £2.4m (2017: £0.4m) and exceptional acquisition costs £nil (2017: £2.8m) in connection with the 2017 Seachill acquisition.

## Basis of preparation

The Group is presenting its results for the 52 week period ended 30 December 2018, with comparative information for the 52 week period ended 31 December 2017. The financial statements of the Group are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

## 2018 Financial performance

### Volume and revenue

Volumes, which include 50% share of the Australian and Portuguese joint venture activities, grew by 13.5% in the year including a full year contribution from Seachill as well as higher volumes in UK, Ireland, Central Europe and Australia offset by lower volumes in Holland, Sweden and Denmark. Additional details of volume growth by business segment are set out in the Chief Executive's summary. Revenue increased 21.5% and 21.9% on a constant currency basis boosted by higher raw material prices.

## Operating profit and margin

Adjusted operating profit of £48.7m (2017: £38.3m) was 27.1% higher than last year and 28.2% higher on a constant currency basis driven by a full year trading at Seachill. IFRS operating profit was 31.9% higher at £46.3m (2017: £35.1m). The adjusted operating profit margin in 2018 increased to 3.0% (2017: 2.8%), and the operating profit per kilogram of packed food sold increased to 14.1p (2017: 12.5p).

## Net finance costs

Net finance costs increased to £3.0m (2017: £0.9m) reflecting higher borrowings following our Seachill acquisition and increased investments in our facilities. Interest cover in 2018 decreased to 16 times (2017: 39 times) accordingly.

## Taxation

The taxation charge for the period was £8.6m (2017: £7.2m). The effective taxation rate was 19.9% (2017: 19.3% excluding exceptional items) reflecting a change in the mix of profits taxed at different rates in overseas countries, particularly Australia.

## Net income

Adjusted net income, representing profit for the year attributable to owners of the parent of £34.5m (2017: £28.0m before exceptional items) was 23.0% higher than last year. IFRS net income after exceptional items was £32.5m (2017: £24.9m).

## Earnings per share

Adjusted basic earnings per share before exceptional items of 42.3p (2017: 37.4p) was 13.1% higher than last year. Reported basic earnings per share were 39.9p (2017: 33.2p). Diluted earnings per share were 39.5p (2017: 32.8p).

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

EBITDA, which is used by the Group as an indicator of cash generation, increased by 18.9% to £70.7m (2017: £59.5m excluding exceptional acquisition costs and IFRS £56.7m) mainly reflecting the increase in operating profits together with higher depreciation charges.

## Free cash flow and net cash position

Cash flow was strong in 2018 with cash flows from operating activities of £53.5m (2017: £46.5m). Free cash outflow after capital expenditure of £99m before dividends and financing was £35.5m (2017: £47.3m including Seachill acquisition costs).

Group borrowings were £114.8m at the end of 2018 and, with net cash balances of £88.0m including the other financial asset comprising a treasury deposit, resulted in a closing net debt position of £26.8m, as compared with net cash of £25.4m at the end of 2017. At the end of 2018 the Group had undrawn committed loan facilities under its syndicated banking facilities of £201.0m (2017: £160.0m).

## Dividends

The Board aims to maintain a dividend policy that provides a dividend level that grows broadly in line with the underlying earnings of the Group and has recommended a final dividend of 15.8p per ordinary share in respect of 2018. This, together with the interim dividend of 5.6p per ordinary share paid in November 2018, represents a 12.6% increase in the full year dividend, as compared with last year. The final dividend, if approved by shareholders, will be paid on 28 June 2019 to shareholders on the register on 31 May 2019 and the shares will be ex dividend on 30 May 2019.

# 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 (%)

## 21.5%

2017: 10.1%

**Definition, method of calculation and analysis:** Year on year revenue growth expressed as a percentage. The 2018 increase mainly reflected volume growth including the first full year of Seachill and related higher unit fish raw material pricing.

#### EBITDA (£m)

## £70.7

2017: £56.7m

**Definition, method of calculation and analysis:** Operating profit before depreciation and amortisation. The increase reflected higher operating profits less the 2017 exceptional item, together with higher depreciation charges.

#### Adjusted operating profit margin (%)

## 3.0%

2017: 2.8%

**Definition, method of calculation and analysis:** Adjusted operating profit expressed as a percentage of turnover. The operating profit margin % in 2018 was boosted by contributions from Seachill and Portugal.

#### Free cash flow (£m)

## £(35.5)

2017: £(47.3)m

**Definition, method of calculation and analysis:** Cash outflow before minorities, dividends and financing. Cash flow generation from operating activities was strong at £53m (2017: £46m) before spend on facilities capex spend of £99m (2017: £12m). 2017 also included £84m spend on acquisitions.

#### Adjusted operating profit margin (pence per kg)

## 14.1 pence per kg

2017: 12.5 pence per kg

**Definition, method of calculation and analysis:** Adjusted operating profit per kilogram processed and sold in pence. The increase in 2018 is attributable to higher unit fish raw material pricing at Seachill.

#### Gearing ratio (%)

## 37.9%

2017: N/A

**Definition, method of calculation and analysis:** Year end net debt as a percentage of EBITDA. The Group was ungeared at the end of 2017 being in a net cash position.

## Non-financial KPIs:

### Growth in sales volumes (%)

13.5%

2017: 10.4%

**Definition, method of calculation and analysis:** Year on year volume growth. Volume growth was seen principally in the UK including the first full year of Seachill plus Australia.

### Employee and labour agency costs (pence per kg)

48.1 pence per kg

2017: 38.7 pence per kg

**Definition, method of calculation and analysis:** Labour cost of producing food products as a proportion of volume. The increase primarily reflects a mix change with higher costs per kg for additional proteins and categories particularly fish.

### Customer service level (%)

98.1%

2017: 98.7%

**Definition, method of calculation and analysis:** Packs of product delivered as a % of the orders placed. Little year on year change.

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, including the impact of austerity programmes and commodity price movements in some countries. The Group sells high quality basic food products, for which there will always be continuing demand, to successful blue chip retailers in developed countries. Hilton has not to date been materially adversely affected by the lengthy recessionary environments seen in some countries, but will keep any future identified country specific risks under continuing review.

### Interest rate fluctuation risk

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

### Customer credit and pricing risks

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

### Liquidity risk

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 2019 financial year and its longer term plans, including consideration of the principal risks faced by the Group. Following this review, the Directors are satisfied that the Company and the Group have adequate resources to continue to operate and meet its liabilities as they fall due for the foreseeable future, a period considered to be at least 12 months from the date of signing these financial statements. For this reason they continue to adopt the going concern basis for preparing the financial statements.

The Group's bank borrowings are detailed in the financial statements and the principal banking facilities, which support the Group's existing and contracted new business, are committed. The Group is in full compliance with all its banking covenants and based on forecasts 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 C.2.2 of the 2016 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 2021. A period of three years has been chosen for the purpose of this viability statement as it is aligned with the Group's three year plan, which is based on the Group's current customers and does not incorporate the benefits from any potential new contract gains over this period.

The Directors' assessment has been made with reference to the Group's current position and strategy taking into account the Group's principal risks and how these are managed. The strategy and associated principal risks, which the Directors review at least annually, are incorporated in the three year plan and such related scenario testing as is required. The three year plan makes reasoned assumptions in relation to volume growth based on the position of our customers and expected changes in the macroeconomic environment and retail market conditions, expected changes in 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  
26 March 2019

# Risk management and principal risks

## Risks and risk management

In accordance with provision C.2.1 of the 2016 UK Corporate Governance Code the Directors confirm that they have carried out a robust assessment of the risks facing the Group that might impede the achievement of its strategic and operational objectives as well as might 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 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.

## Brexit

There is significant uncertainty concerning post Brexit trade arrangements with potential wide-reaching impacts from a possible 'no deal' scenario requiring increasing diversion of resources to prepare for the range of possible outcomes, as the possible exit date draws nearer. These 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.

## The most significant risks the Group faces

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 opposite. 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	<b>The Group is dependent on a small number of customers who can exercise significant buying power and influence when it comes to contractual renewal terms at 5 to 15 year intervals.</b>
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 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	<b>The Group's growth potential is dependent on the success of its customers and the growth of their packed food sales.</b>
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	<b>The progress of the Group's business is dependent on 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.</b>
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	<b>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 factory operatives resource and execution of simultaneous growth projects.</b>
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	<b>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.</b>
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	<b>The Group's business is dependent on maintaining a wide and flexible global food supply base operating at standards that can continuously achieve the specifications set by Hilton and its customers.</b>
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	<b>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.</b>
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 the BRC Global Standard for Food Safety and our own factory standards assessments drives 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	<b>Significant incidents such as fire, flood or interruption of supply of key utilities could impact the Group's business continuity.</b>
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	<b>The Group's IT systems could be subject to cyber attacks including fraudulent external email activity. These kinds of attacks are generally increasing in frequency and sophistication.</b>
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.

# Corporate and social responsibility report

## Highlights

### UK Plastics Pact

Founding member of the UK Plastics Pact, working with partners in order to be industry leading in sustainable packaging.



### Animal Welfare

Hilton are the highest new processor entrant, ranking in tier 3 in the global welfare benchmark in 2018. We are highlighted in the report for our supplier engagement.



### Carbon Disclosure Project

Our CDP Score improved in 2017. We are introducing advanced energy management systems. Our facility in Ireland reduced energy intensity by 28%, achieved certification to ISO 50001, and is utilising 100% renewable electricity.



### Cool Farm Alliance

Hilton conducted farm trials of the new Cool Farm Alliance tool that assesses the greenhouse gas and environmental impacts of beef farms. We are helping develop more accurate impact measures, and this resulted in an award from Tesco.



### Deforestation

We are committed to sourcing responsible soy through the UK Round Table on Sustainable Soy. We also signed the statement of support to the Cerrado manifesto through FAIRR.



### Food Waste Reduction

We published UK food waste data for the first time as part of our commitment to Champions 12.3, the global initiative to halve food waste by 2030 in support of the UN Sustainable Development Goals.



### Seafood Ethical Action Alliance

Founding member and first chair of the UK Seafood Ethical Action Alliance. Co-funded with Tesco development of the SEDEX Fishing Vessel Assessment Module.



### North Atlantic Cod

Founding partner, together with Greenpeace, in the award winning Industry Group Agreement to Cod fishery in the Northern Part of North-East Atlantic. This protects vulnerable areas of the Arctic seabed from trawling as the ice recedes.



## Our commitments

### Courtauld 2025

We have signed up to Courtauld 2025, a voluntary commitment to reduce the resources required to produce food in the UK by 20% by 2025, as well as reducing food waste by 20% by 2025. We will achieve this through advanced energy monitoring software and implementing an ISO 50001 certified energy management system. This gives us continuous monitoring on the effectiveness of measures to reduce energy consumption and water usage.

### Champions 12.3

We have signed up as a 'Friend of Champions 12.3', an initiative to deliver the United Nation's Sustainable Development Goal 12.3 – to halve our food waste by 50% by 2030. Case studies from our UK factories are featured on the Tesco website. Innovation in packaging materials and process controls is already delivering waste reduction across our product ranges.

### UK Plastics Pact

By 2025, the UK Plastics Pact will transform the UK plastic packaging sector by meeting four world-leading targets for plastic packaging.

1. Eliminate problematic or unnecessary single use packaging through redesign, innovation or alternative (re-use) delivery models by 2025
2. 100% of plastics packaging to be reusable, recyclable or compostable by 2025
3. 70% of plastics packaging effectively recycled or composted by 2025
4. 30% average recycled content across all plastics packaging by 2025

### UK Soy Roundtable on Sustainable Soya

We are committed to sourcing soya that is legal and cultivated in a way that protects against conversion of forests and valuable native vegetation, and achieving meaningful and demonstrable progress towards this goal by 2020.

## Introduction

Hilton recognises the social, ethical and environmental responsibilities associated with being the first choice partner for our retail customers. Our total partnership approach and commitment to non-negotiable ethics is framing the development of our global CSR strategy. The Group is committed to working in an ethical, open and honest manner to produce products of the highest quality, responsibly and sustainably. Our reporting will demonstrate that we are incorporating sustainability into how we do business, going well beyond disclosure.

Our vision is to deliver to consumers a choice of quality sustainable and accessible proteins and drive innovation and best practice in our supply chains and factories.

Hilton is informed by the scientific reports that give a compelling challenge to the global food industry to work together to ensure a sustainable food system for the future. 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.

Our social commitment is to look after the wellbeing of our people and to assess, and where necessary help improve, the wellbeing of people in our supply chains collaboratively with our suppliers.

The Board has general oversight for CSR activities, along with corresponding risks and opportunities. The CEO has overall responsibility for the Group's operations, which inherently includes the sustainability of our business. The Board is updated on the CSR agenda and progress towards our own, and our customers' targets, at least every six months.

The Executive Leadership Team (ELT) is the operational tier immediately below the Board and reports into the CEO. They are responsible for ensuring that the business strategy considers climate related risks and mitigation. The Chief Quality and CSR Officer is responsible for the Group CSR strategy within the ELT. Hilton is enacting a strategy to address climate related risks as described on page 33.

The descriptions of our actions and the associated declarations contained within this Corporate and social responsibility report are structured as far as possible in accordance with the recommendations from the Task Force on Climate-Related Financial Disclosures, to provide decision-useful information to investors and others.

## Quality and Food Safety

Hilton 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.

### Retail packing at Hilton

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 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 2018.

We maintain strong links with academia and technological advances, working alongside Campden BRI, Danish Meat Research Institute and Teagasc Ireland and attending the annual International Conference of Meat Science and Technology. We are also members of a number of trade associations such as British Meat Processors Association, Food and Drink Federation and Seafish.

### 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 ensure we are able to consistently meet the best in class specifications our retail partners set for our products.

### Supply chain integrity and traceability

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

# Corporate and social responsibility report

## continued

We partner with the best suppliers that share our absolute commitment to quality, food safety, welfare of people, 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. Every meat supplier is audited by our audit team at least every two years. For ingredients and packaging, the 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 use this information to determine whether we will audit the supplier ourselves or approve them based on independent third party audit such as the BRC Global Standard for Food Safety.

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 compliance to agreed quality specifications including increasing use of DNA testing. 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.



### Animal welfare

At Hilton, animal welfare is central to our values and integral to our business, to enable us to meet our customers' expectations for high quality, sustainably reared livestock and farmed fish. Together with our retailer partners, suppliers and farmers we are committed to the development and implementation of high welfare standards for animals and farmed fish across our global supply chains, from breeding and rearing to transportation and slaughter. As a global business, we aim to share learnings across the different markets in which we operate, using our influence to drive progressive improvements in animal welfare that meet and exceed legal requirements.

Our approach is based on the Five Freedoms of the Farm Animal Welfare Council (FAWC):

1. Freedom from hunger and thirst
2. Freedom from discomfort
3. Freedom from pain, injury or disease
4. Freedom to express normal behaviour
5. Freedom from fear and distress

It is necessary that all parties in the supply chain work together collaboratively to ensure high welfare standards for animals from breeding and rearing to transportation and slaughter. This is detailed in our animal welfare policy which contains the following principles:

1. All applicable laws and legislative requirements are met, and where possible slaughter facilities and farms are certified to independent farm assurance schemes
2. Antibiotics are used as little as possible without compromising animal welfare, through better site hygiene, husbandry, biosecurity and other preventative measures
3. All animals and farmed fish are effectively stunned prior to slaughter
4. The avoidance of routine procedures such as tail docking and the use of suitable pain relief where they are used
5. The avoidance of close confinement and, where appropriate to the species, the promotion of environmental enrichment
6. Travel times are kept to a minimum and for livestock are not greater than eight hours
7. No animals/farmed fish are from cloned stock or subject to genetic engineering
8. No use of growth promoting substances or hormones
9. The use of welfare outcome measures to monitor standards objectively, and to use targets and benchmarking to drive best practice across the countries from which we source

We are committed to publicly reporting our progress and regularly review our policy in a process of continual improvement based on our own learnings, the future needs of our customers, the latest developments in scientific research and our ongoing engagement with experts in the field including NGOs.

The policy is enacted via purchasing from farm assurance certified sites, audits of abattoir and fish slaughter standards, and sample farm audits by either our own team or specialist welfare auditors. Hilton are also directly engaging to continuously improve welfare standards in collaboration with our suppliers.

### Hilton's supplier engagement in animal welfare

Hilton works with supply chain partners to understand where further improvements can be made on animal welfare. This includes:

- Facilitating the provision of fish welfare training by European experts to fish farmers in Turkey and Vietnam.
- Sharing the findings from an audit of a salmon slaughter plant in southern Norway, which revealed an opportunity to improve the flow of salmon into the entrance of the electrical stunner to ensure a head first alignment and thus a more effective stun. In Norway, the actions agreed from a salmon slaughter audit resulted in the improved segregation of lumpfish (which help clean sea lice from salmon) during live grading, to ensure both species are stunned correctly.
- Working collaboratively with Tesco and other leading protein producers as members of Tesco Producer Groups to assist in developing their welfare and environmental farming standards.
- Participating in UK food industry innovative on Antimicrobial, which is looking at the livestock industry's use of antibiotics for the treatment and prevention of disease and the actions that can be taken to reduce usage and contribute towards a reduction in the growth in human antibiotic resistance.
- Contributing to the development and improvement of global welfare standards, for example providing expert fish welfare input into the development of the fish welfare standards within GlobalG.A.P. and other standards.
- Working with its farmed salmon suppliers in Norway to support improvements in sea lice prevention.
- Investing in the exploration of farming technology innovations including closed containment systems and offshore salmon farming.

### Partnerships for growth

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

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

We have established partnerships with key suppliers whose core capability is the development of innovative ingredients. By working closely in partnership with our suppliers we can combine our extensive, in-depth understanding of food production on an industrial scale with their expertise to develop a delicious portfolio of innovative products designed to match consumer expectations.

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

# Corporate and social responsibility report

## continued

### Awards and innovation

Hilton takes great pride in its products and we are delighted when the quality and innovation of these products is recognised. During 2018 we received a number of national food and taste awards.

In the UK we won Bronze with the Tesco Finest Dry Aged Ribeye Steak. The Saucy Fish Co.'s Cook from Frozen Herb Crusted Salmon with Lemon Butter Sauce came second in the 'Best Protein' category of Coach Magazine's Healthy Food & Drinks Award.

In Ireland we won a number of awards with the most notable being Gold at the World Steak Challenge for the Tesco Finest Irish Angus Beef Fillet Steak and the product also won two stars at the Great Taste Awards and was a winner at the Irish Quality Food Awards. Tesco Finest West Cork Dry Aged Ribeye won awards at the Quality Food Awards, Bronze at the World Steak Challenge and three Golden Stars at the ITQI Awards. Several other awards were achieved in Ireland at the Great Taste Awards, Blas na hEireann, Free From Awards, World Steak Challenge and ITQI across a number of product categories including roasting joints, steaks, sausages and rashers.

Sweden's minced meat was the winner in Sweden's leading and largest evening paper Aftonbladet and our Portuguese Beef Burgers won 'Product of the Year' with our customer.

## Sustainability

### Sustainability initiatives in supply chains

Hilton Food Group is engaged in collaborative action to address the sustainability challenges and opportunities that we have identified together with our suppliers and customers. Our global CSR programme will integrate existing work streams on meat and seafood.

Hilton Food Group actively participates in the following collaborative initiatives:

- UK Food Industry Initiative on Antimicrobials – measuring and addressing the root causes of antimicrobial usage in animals.
- UK Roundtable on Sustainable Soya – a 'pre-competitive' forum for companies and industry associations to work together, with the support of government, towards a sustainable soya supply chain for the UK. Hilton have conducted on farm surveys of soya use in feed and therefore estimated our total soya footprint. Certification credits will be purchased equivalent to this volume. The next step is to engage with the major feed producers and farming organisations to purchase certified soya directly where possible.
- European Roundtable for Beef Sustainability – where we agree measures and objectives with the aim of recognition in the beef value chain for delivering measurable positive impacts and continuous improvement towards key sustainability priorities.
- UK Cattle Sustainability Working Group – to deliver the ERBS objectives in the UK. Hilton are testing and helping to further develop the Cool Farm Tool for beef, on rearing farms together with our suppliers.
- WRAP Beef working group – supporting implementation of sustainable production indicators and collaboration in sustainability focused innovation.
- Sustainable Seafood Coalition – we were the first members and helped to write the industry codes that define responsible sourcing.
- We are founder members of the two UK Common Language and Seafood Ethics Common Language Groups for environmental and social sustainability. These convene industry, retailers, government, NGOs and scientists to inform and address the issues in the ocean, land based aquaculture, and their supply chains.
- We chair the Seafood Ethical Action Alliance – a coalition of retailers and processors dedicated to improving the lives of the workers in our collective supply chains.
- We chair the Seafood Industry Alliance – the voice of the industry to the UK government.
- We helped negotiate and manage the Barents Sea Agreement – a voluntary agreement to protect vulnerable marine ecosystems in the far North Atlantic, together with Greenpeace.



Our seafood CSR programme, Quality Naturally, has three pillars:

- Sustainability – growth from responsible aquaculture and ensuring there are enough fish in the sea for future generations;
- Ethics – respecting people who work in our supply chains and factories and working to safeguard good welfare and working conditions; and
- Authenticity – transparency and trust in our supply chain to assure to our customers that we sell what it says on the label.

### Supporting eco-labelling of seafood

#### Wild capture fisheries

Where possible wild catch species are independently certified to the Marine Stewardship Council's standard for a well managed and sustainable fishery. Where fisheries are not yet certified we actively engage in and help fund the fishery improvement projects and certification assessments.



#### Aquaculture

All of our aquaculture species are independently certified to either GlobalG.A.P., BAP, or the Aquaculture Stewardship Council's standards for responsibly farmed seafood.



- We are members of several fishery improvement projects aimed at achieving MSC certification, including nephrops (scampi), lemon sole, and Chinese squid.
- We are on the main board and technical committee of the global Responsible Fishing Scheme.
- We are members of the aquaculture standards committee for GlobalG.A.P.

## Environment

The Group takes all practicable steps to manage carefully the impact on the natural environment of our own operations. We comply with regulations, identify climate related risks, and we plan to set Science Based Targets to ensure our efforts are backed by science and recognised as sufficiently ambitious to deliver our contribution to society wide climate change mitigation.

### Regulatory compliance

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

Anticipated regulatory compliance is also taken into account. Future impactors include, but are not limited to, evolving packaging and environmental tax systems in the countries that we operate. For example the UK is aiming to reform packaging tax in 2022 for higher tax rates for packaging materials with less than 30% recycled content, which could impact our business.

## Climate related risk identification and mitigation

We are committed to assessing and continuously reducing the impacts of our operations. This includes reducing our waste, reusing or recycling where practicable, and exploring how we can improve biodiversity around our sites.

Climate related issues are integrated into multi-disciplinary Company wide risk identification, assessment, and management processes. We consider short term to be 0-1 years, medium term 1-5 years and long term 5-50 years. Our assessment shows climate related risks will impact in the medium and long term.

The Group operates a Risk Management Committee to identify risks, which are compiled into a risk register. The size and relevance of these risks are evaluated on the basis of the size of impact they would have on volume produced and the potential for shareholder or customer concern. If these risks were to pose a greater than 1% reduction in profits, they would be considered as 'substantive'.

We also utilise our customers' processes for continually identifying climate related risks by maintaining constant communication between our mutual CSR teams. Please review the Risk management section on pages 24-27 for additional detail.

# Corporate and social responsibility report

## continued

### Relevant climate related risk types

Current regulation	Full legal compliance to regulation forms the basis of our systems and responsibilities across all of our business activities. We take this seriously as there is a possibility of financial and reputational impact of not complying with legislation related to climate impacts.
Emerging regulation	We are a progressive and strategic business and therefore it is important to consider the changing landscapes of regulation in the countries that we operate. Regulation can change quickly with regards to sustainability so it is essential to monitor emerging regulation and where appropriate engage in its development.
Technology	Technology forms much of the foundation of control and efficiency of our operations. Risk mitigation is often possible by investment in technology and we consider the risks and impacts from failure of systems and processes.
Market	The retail partners that we supply can often dictate the direction and speed of change towards climate related objectives for their products. Therefore it is important that we include market forces in our risk assessments. Costs associated with inputs (energy/water) and outputs (waste) will also continue to fluctuate in the market.
Reputation	Inherently important for a public company with multiple customers, employees and investors. Our reputation is as a responsible supplier focused on improving the sustainability of our supply chains with trusted supply chain partners. We take our responsibility for the reputation of these supply chains very seriously. Customer demand for products could also be affected by climate related reputational issues which could indirectly affect our business.
Acute physical	We assess the liability to extreme weather events such as flooding. It is imperative that we assess and monitor the evolution of these acute physical risks to our direct operations, and upward through our supply chain. Using a diverse number of suppliers mitigates our inherent acute physical risk.
Chronic physical	These include the rise in average temperatures and sea levels. Climate changes may also affect supply chain productivity resulting in increased costs and add complexity to the supply chain.
Upstream	If our supply base was subject to climate risks this would have an impact on the availability, and quality of our fresh products. It is important for Hilton to monitor potential impacts from climate change through our supply chain to ensure we uphold our reputation for quality and service.
Downstream	We collaborate in mitigation of risks with our retail partners. This process has formed much of the basis of our current sustainability initiatives and commitments. Therefore understanding possible climate related risks downstream in distribution and customer choice of products is vital for our Company. Understanding the impact on consumer choices in the food they consume is important to guide the future development of food products and supply chains.

### How the identified risks and opportunities have impacted our business

Products and services	Not yet impacted	We have not seen a clear indication of reduced consumer demand on a broad spectrum.
Supply chain and/or value chain	Not yet impacted	We have not encountered recent, substantive and measurable effects on our supply chain.
Adaptation and mitigation activities	Impacted	Some increased capital investment costs to increase energy efficiency.
Investment in R&D	Not yet impacted	We cannot attribute this solely to climate related influences in our business.
Operations	Impacted	We have realised reduced energy usage in certain sites and processes.

### How the identified risks and opportunities have factored into our financial planning process

Revenues	Impacted in line with operating costs	Through our cost plus agreements with our customers changes in operating costs feed into revenues. We are dedicating more resources to CSR which has the potential to positively affect revenue.
Operating costs	Impacted	Certain examples of reduced energy costs due to efficiencies and technology such as LED lighting, the latest machinery and carbon management software. Increased costs may come, for example, from higher compliance costs or insurance premiums in the future.
Capital expenditures/ capital allocation	Impacted	Specification of equipment that Hilton purchases and the design of any new factories will have regard to the latest climate related risks and opportunities where Hilton strives to be efficient with as low an impact on the planet as possible.
Acquisitions and divestments	Not yet impacted	Climate related issues yet to be attributed to acquisitions and divestments. Seachill, acquired in 2017, has a strong track record for driving sustainability through the fish supply chain.
Access to capital	Impacted for some suppliers, facilities, or product lines	Increased internal funding for climate related innovation is available subject to normal commercial justifications.
Assets	Impacted for some suppliers, facilities, or product lines	Future proofing our assets in terms of climate related issues is factored into the building process for new and upgraded buildings.
Liabilities	Not yet impacted	Yet to calculate the financial planning process to liabilities with regards to the impact of climate related influences.

# Corporate and social responsibility report

## continued

### Carbon footprint and greenhouse gases

The Group has complied with all the mandatory reporting requirements under the Companies Act 2006 (Strategic report and Directors' reports) Regulations 2013. The Group's scope 1 and scope 2 carbon footprint has been calculated using a mixture of DEFRA and IEA emissions factors. An appropriate ratio to express the Group's annual emissions in relation to its activities by way of product volumes produced is given below.

We assess the climate related risks and energy saving opportunities in our factories and develop improvement plans for our site operations and process efficiency aimed at meeting our carbon reduction targets.

Our target is to reduce our scope 1 and scope 2 intensity in line with the Science Based Targets Initiative (SBTI) requirements. To this end we are submitting targets for approval by the SBTI based on a 34% reduction in intensity by 2030.

Hilton is not directly engaged in the breeding, growing and slaughtering of animals, so the proportion of the total GHG footprint of retail meat and fish which can be influenced directly by the Group's packing activities is very small. We are however using our influence to engage in industry wide collaboration to help address climate related risks and opportunities in our supply chains in partnership with our key suppliers and retail customers. We are committed to supporting our customers supply chain target to reduce processing and agricultural emissions.

To address the greenhouse gas impacts from beef farming we have joined the European Roundtable on Sustainable Beef and we are carrying out on farm measurements in the UK to help develop the measurement tools needed to quantify the impacts of changes in practices and feed formulations.

Our seafood supply chain partners are investing in more efficient catching and farming operations that can also withstand the impacts of extremes in weather and longer term climate impacts.

Examples include:

- The connection of salmon farms to the mainland electricity supply in Norway that utilises fully renewable electricity generation.
- The use of water re-circulation technology in freshwater farms.
- The replacement of wild caught fish oils with cultured algal oils produced using energy generated from by-products of sugar and corn crops.
- At sea the catching vessels are using more efficient engines and lower drag fishing gear to reduce the energy needed and to be more selective to eliminate unwanted by-catch.

	Tonnes of CO <sub>2</sub> e		
	2018	2017	2016
Scope 1	9,450	3,987	4,069
Scope 2	35,598	22,275	21,195
<b>Total</b>	<b>45,048</b>	<b>26,262</b>	<b>25,264</b>

Tonnes of CO <sub>2</sub> e per tonne of product	
2018	0.13*
2017	0.11
2016	0.11

\*Increases in 2018 are due to the first full year of accounting for Seachill's emissions, along with the addition of Portuguese and Australian joint ventures. The majority of our pre-established sites have reduced their CO<sub>2</sub>e per tonne produced from 2017.

### Energy usage

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

We are introducing advanced sensors and software across the Group to manage energy and water usage in real time and demonstrate the improvements made by better management, investment in efficiency and process and packaging innovation.

Hilton is introducing an Energy Management System (EnMS) in compliance with ISO 50001, the first site to be certified was Ireland in 2018.

Hilton is establishing Environmental Management Systems (EMS) systems to appropriate standards at each site. Whilst we are not committing to achieve certification to ISO14001 at all sites the systems are based on this framework, and the EMS at the Portugal site is certified.

Water use is driven by the need to deliver the highest standards of hygiene and its inclusion in the processing systems we use. Our water management control systems include local monitoring of individual processes and optimising the use in hygiene, to use it efficiently and responsibly. Performance on water usage is shown below.

Cm <sup>3</sup> of water use per tonne of product	
2018	2.33*
2017	1.68
2016	1.65

\*The increase in 2018 is due to the first full year of accounting for Seachill water usage along with the addition of Portuguese and Australian joint ventures. Fish processing is inherently more water intensive.

### Food waste

Hilton Food Group have committed globally as a 'Friend of Champions 12.3', an initiative dedicated to accelerating progress towards achieving the UN Sustainable Development Target 12.3 by 2030. This target aims to halve per capita global food waste at the retail and consumer level, and reduce food losses along production and supply chains by 2030. We published case studies highlighting the progress we are making to achieve this target in the UK on the Tesco website in 2018.

Our commitment will be achieved by addressing the root causes of food loss and waste, while continuing to meet stringent standards for quality and presentation. We are monitoring and centrally reporting food waste to understand our progress towards our targets. The food yield (comparing the weight of raw material with that incorporated in finished products) is monitored continuously across the entire product range at every Hilton site.

Hilton are also working with our retail partners to ensure that waste is minimised both in store and in the home, by maximising the available shelf life and offering consumers a choice of single and multi-serving pack sizes.

### Sustainable packaging

Our ultimate goal is to have fully recyclable and widely recycled packaging containing a high proportion of recycled material, which has the lowest possible carbon footprint. This applies to all formats and types of packaging.

Through the extensive use of state of the art packaging including skin pack technology our products benefit from an extended shelf life thereby providing food safety security and reduced food waste.

Hilton understands the sustainability goals of our customers and we are closely aligned with them in our joint desire to minimise the environmental impact of our packaging. Whilst the packaging formats used for our products are selected by our customers we bring expert advice and best practice to the selection process.

We ensure that when we develop new packaging we 'design for recyclability'. Every decision that we make considers the environmental impact that the new packaging will have, thereby ensuring that all decisions made are working in alignment with our goals.

We have strong partnerships with our key suppliers of packaging materials and work together closely as part of our sustainability agenda. We are conscious of the potential impact the use of plastic has on the environment. We are working with our key suppliers in three work streams. Firstly we are striving to maximise the use of recyclable trays across the Group and have started to move to the use of recyclable trays in our production.

The second work stream is focusing on the use of recycled plastic in product trays that we purchase. This also uses significantly lower energy consumption in their manufacture. Finally we are continuously setting the industry standard for lighter product trays which require less plastic. These trays are jointly developed and tested with our key packaging suppliers to ensure that although lighter they are still robust enough to maintain the required functionality and stability attributes.

## Workplace

### Health and safety

One of Hilton's top priorities is to achieve continual improvements in health and safety. The Group requires all its subsidiaries to achieve high health and safety standards within their individual operations. All subsidiaries conduct regular formal health and safety reviews. Managers and employees review policies, processes and procedures in order to ensure that risks are properly assessed, with appropriate actions taken in order to protect the safety of employees. At Board level Philip Heffer, Chief 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. Key statistics are as follows:

	Average number of employees	Serious accidents	Recorded accidents per 100,000 hours worked	Sickness rate (%)
2018	4,127	68	5.3	3.3%
2017	3,545	40	4.5	4.8%
2016	2,948	40	5.2	3.6%

### Our people

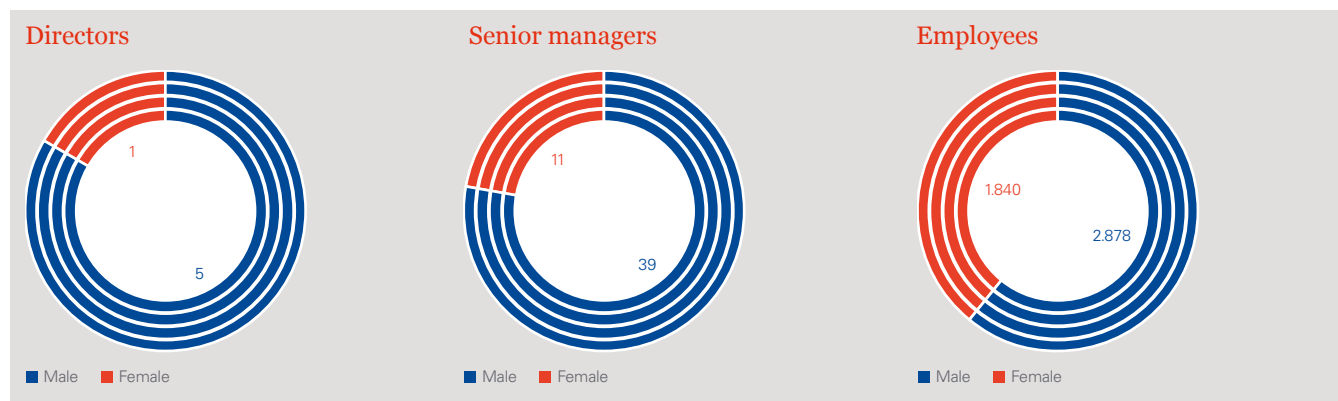
At Hilton we believe in a very simple equation which is that happy people at work results in happy customers and happy customers ensure our future successful growth. This is why we have in place a people strategy that sustains and builds colleague engagement and ensures that Hilton continues to be an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

- The need to prepare for the future
- Creating engagement and advocacy
- Sustaining a high performance culture

### Preparing for the future

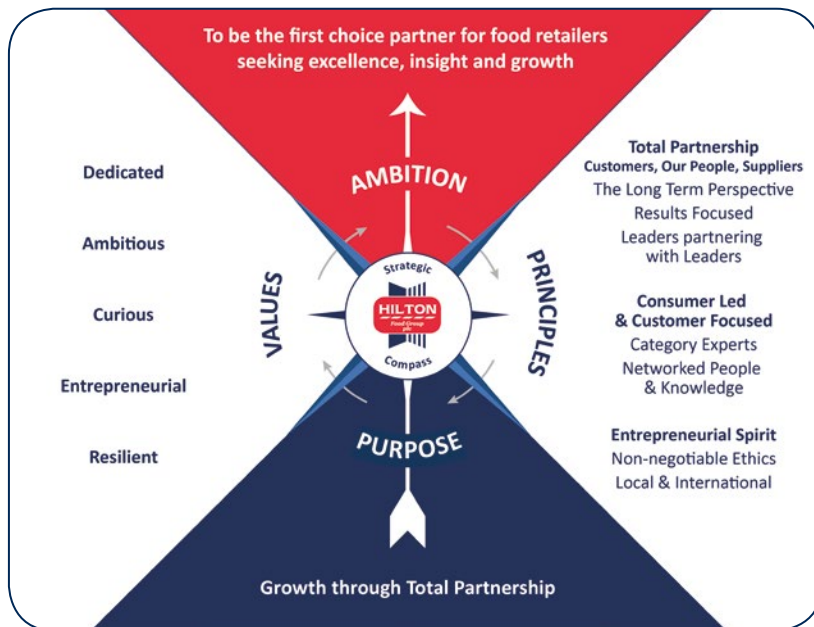
Attracting and developing the kind of talent we will need in the future, whilst also developing existing colleagues to their full potential is vital. We are an inclusive business. All our people are talented, and we ensure that we give equal access to all opportunities.

To support our aspiration a new learning and development blueprint has been developed 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.



# Corporate and social responsibility report

## continued



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. 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 has also been updated to incorporate the same leadership competency framework. This ensures a balanced assessment of the candidate with greater emphasis on transferable leadership behaviours.

Gender diversity increased during the year through three female appointments into senior leadership roles, of which two were internal appointments, including our first female managing director. To further develop our diversity and inclusion agenda we have commenced a policy review which we will complete next year.

### Creating engagement and advocacy

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 launched a number of new initiatives including our first 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 new strategic compass. These vehicles also enabled the sharing of company performance.

We have also implemented 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 2018, we conducted engagement surveys in a number of our operating companies 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.

### Sustaining a high performance culture

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 & 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. In 2019 we will finalise our approach to total reward and grading.

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.

### Social risk assessment and assurance for our people and those in our supply chains

Hilton Food Group are members of The Food Network for Ethical Trade (FNET) where we are elected members of the Strategic Advisory Group. FNET are developing an online risk assessment tool together with Anthesis that we will be using to evaluate all of the Hilton supply chains. This helps us to make informed business decisions about the need for social compliance audits and/or further collaborative improvement work. FNET are also developing global tools for addressing supply chain risks related to modern slavery such as addressing recruitment fees and we are integrating these into the training and development plans we are developing with our suppliers.

In our own factories we are implementing training programmes in the UK using materials provided by Stronger Together, an initiative supporting fair recruitment processes and to help identify victims of people trafficking.

Hilton are A/B members of SEDEX which is a collaborative platform for confidential sharing of responsible sourcing data and social compliance audits by our supply chains. SEDEX helps us to assess supplier performance around labour rights, health & safety, the environment, and business ethics and to drive continuous improvement.

We will be carrying out our first human rights impact assessment in a key supply chain in 2019 in cooperation with key suppliers and an international human rights NGO. This is an approach that goes beyond the first tier of supply right back to the suppliers of feed ingredients.

### Trading relationships with partners and suppliers

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

### Ethical standards

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

### Anti-bribery and corruption

Hilton has a zero tolerance approach to bribery and corruption including the giving or receiving of bribes for any purpose. Our anti-bribery and anti-corruption policy contains our commitment to conducting business in an honest way and explains how any suspicious activity can be reported. A whistle-blowing policy continues to operate so that staff can in confidence raise any concerns about any actual or potential improprieties in relation to matters of financial reporting or any other aspect of our businesses.

### Modern slavery

We aim to ensure that the way we run our business prevents and deters any form of modern slavery and human trafficking from occurring anywhere in our business and supply chain. Hilton is dedicated to maintaining a fair and ethical workplace for all of our staff, and prohibits the use of all forms of forced labour and human trafficking. We have introduced a Modern Slavery Policy within the Group to ensure that slavery and human trafficking is not taking place in any part of our business or our supply chains.

We work to identify, assess and monitor any potential areas of risk in relation to our business and supply chains, and carry out regular quality audits of our meat suppliers. We also train relevant employees in the steps to be taken in the event of any modern slavery specific concerns.

### Tax strategy

Hilton is committed to paying the right amount of tax at the right time and complying with all relevant laws and regulations. With a low risk appetite we have a simple corporate structure based around our commercial operations. We do not engage in planning schemes or arrangements that could be considered aggressive or artificial in nature. Tax forms part of Hilton's policy whereby risks are assessed and appropriately managed.

## Community

### 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. During 2018, Hilton made charitable donations amounting to £97,256 (2017: £60,000).

The Hilton Food Group Charitable Foundation promoted our second charitable golf day during the year raising funds of £82,000 for East Anglia's Children's Hospices and The Cure Parkinson's Trust.

The Group seeks to be a good neighbour in all its locations. We are committed to social responsibility and believe that the success of our businesses will reflect the quality of the relationships we build with our communities and legitimate public interest groups. As an example in Denmark we have started a cooperation with Blue Cross to supply our surplus meat products to a local home for vulnerable people and their children.

## Approval of Strategic report

Pages 6 to 39 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  
26 March 2019

# Governance



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For more information visit:  
[www.hiltonfoodgroupplc.com](http://www.hiltonfoodgroupplc.com)

# Board of Directors

## Executive Directors



**Robert Watson OBE**  
**Executive Chairman**

Robert joined Hilton as Chief Executive in 2002 and on 1 July 2018 he transitioned to Executive Chairman. He 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. 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 since 2012 has served as Hilton's Chief Operating Officer. On 1 July 2018 he was promoted to Chief Executive Officer. 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.



**Nigel Majewski**  
**Chief Financial Officer**

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

## Non-Executive Directors



**John Worby**  
Non-Executive Director

John joined Hilton in 2016 and is a Chartered Accountant with a wealth of experience in public companies and the food sector. He was Group Finance Director at Genus plc retiring in 2013 and previously was Group Finance Director and Deputy Chairman of Uniq plc. John currently holds Non-Executive Directorships at Carr's Group plc and formerly was a Non-Executive Director at Cranswick plc, Fidessa Group plc and Connect Group plc. He is also a member of the Financial Reporting Review Panel. John is Chairman of the Audit Committee and is the Senior Independent Director.

**Christine Cross**  
Non-Executive Director

Christine joined Hilton in 2016 and was originally a food scientist before devoting the 14 years to 2003 with Tesco in senior roles focusing on own brand, non-food and global sourcing. She has since worked with a wide range of food and non-food retail and consumer businesses and currently holds Non-Executive Directorships with Coca-Cola European Partners plc, Sonae SGPS SA (Portugal) and several private companies. Former Non-Executive Director positions were held with Next plc, Woolworths Limited (Australia), Brambles Limited (Australia) and Kathmandu Holdings Limited (New Zealand). Christine is Chair of the Remuneration Committee.



**Angus Porter – appointed 1 July 2018**  
Non-Executive Director

Angus joined Hilton in 2018 and has extensive knowledge and experience in public companies and the food and retail sectors with an MA in natural sciences and PhD from the University of Cambridge. He 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).



**Neil George**  
Company Secretary

Neil joined Hilton in 2007 and is a Chartered Accountant.

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

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

# Directors' report

The Directors present their report together with the audited financial statements for the 52 weeks ended 30 December 2018. Reference to other relevant information incorporated into this report is below.

## Strategic report

The Strategic report on pages 06 to 39 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 Corporate and social responsibility report on pages 28 to 39 which contains details of the Group's employment practices and greenhouse gas emissions.

## Corporate governance and other statutory disclosures

The Corporate governance statement, Board Committee reports and Directors' remuneration report on pages 52 to 68 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.

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

## Principal activities

The Group is the leading specialist international food packing business.

## Results and dividends

The profit before income tax is £43.3m (2017: £34.2m).

An interim dividend of 5.6p per ordinary share was paid in December 2018. The Directors recommend the payment of a final dividend for the period which is not reflected in these financial statements, of 15.8p per ordinary share totalling £12.9m, 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 28 June 2019 to members on the register at the close of business on 31 May 2019. Shares will be ex dividend on 30 May 2019.

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	Corporate and social responsibility report	28 – 39
Employees		
Human rights		
Social matters		
Anti-bribery and corruption		

## 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	9,794,609	12.00%	Indirect
Fidelity Management & Research	8,160,146	10.00%	Indirect
R. Heffer	3,796,500	4.65%	Direct
G. Heffer	3,009,497	3.69%	Direct
Santander Asset Management	2,593,737	3.18%	Indirect
Kames Capital	2,571,473	3.15%	Indirect
AXA Investment Managers	2,555,000	3.13%	Indirect
Canaccord Genuity Wealth Management	2,485,543	3.05%	Indirect

Additionally Directors' interests in shares total 8.31% and details are given on page 65.

## Directors and their interests

The Directors of the Company in office throughout 2018, together with their biographical details, are set out on pages 42 and 43. All the Directors served for the whole of the year under review unless stated. On 1 July 2018 Colin Smith retired from the Board and Angus Porter was appointed to the Board. Details of Directors' interests in shares are provided in the Directors' remuneration report on page 65.

Directors are subject to reappointment at the Company's AGM following the year in which they are appointed. In accordance with the Company's Articles of Association one third of the Board is subject to re-election at each AGM. Following accession to the FTSE 350 Index all Directors will in future retire at each Annual General Meeting.

## 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 (2017: £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 23 May 2018:
  - 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 23 August 2019 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 42 and 43. 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](http://www.hiltonfoodgroupplc.com/investors/agm).

By order of the Board

## Neil George

Company Secretary  
26 March 2019

# Corporate governance statement

## The UK Corporate Governance Code

The Board has prepared this report with reference to the 2016 UK Corporate Governance Code (the 'Code') issued by the Financial Reporting Council in April 2016 which applies to accounting periods beginning on or after 17 June 2016. The provisions of this Code can be obtained from [www.frc.org.uk/corporate/ukcgcode.cfm](http://www.frc.org.uk/corporate/ukcgcode.cfm).

This Corporate governance statement combined with the Board Committee reports and the Directors' remuneration report on pages 52 to 68 detail how the Board applies the principles of good governance and best practice as set out in this Code.

Prior to 2018 the Company was included in the FTSE SmallCap Index and accordingly took advantage of the Code provisions for smaller companies. On 29 June 2018 Hilton was added to the FTSE 350 Index. The Code defines a smaller company as one that is below the FTSE 350 throughout the year immediately prior to the reporting year. Accordingly the Company still qualified as a smaller company during the year and as such the Code provisions for smaller companies were still available to the Company.

The Directors consider that the Company has complied with the ten requirements of this Code during 2018, taking into account the provisions for smaller companies except for the following:

- During the year Robert Watson transitioned from Chief Executive to Executive Chairman. Code provision A.3.1 states that a chairman should be independent on appointment and that a chief executive should not go on to be chairman of the same company. Robert's transition does not follow this provision. The Code provision also states 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 in the next annual report. The Directors believe that there were exceptional circumstances and accordingly major shareholders were consulted in advance of the appointment. These reasons were detailed in a RIS announcement and are replicated below.

A new 2018 UK Corporate Governance Code was issued during the year which becomes effective from 1 January 2019.

## The Board

### Membership

At the date of this report the Board consists of three Executive Directors and three Non-Executive Directors whose names, responsibilities, brief biographies and membership of Board Committees are set out on pages 42 and 43. The Directors bring strong judgement and expertise to the Board's deliberations and the Board is of sufficient size and diversity to achieve the balance of skills and experience appropriate for the requirements of the business.

### Chief Executive transition to Executive Chairman

On 1 July 2018 Colin Smith retired as Non-Executive Chairman and Robert Watson transitioned from Chief Executive to Executive Chairman of Hilton Food Group plc. It is planned that Robert will become Non-Executive Chairman during 2020. The Board considered this change to be in the best interests of the Company. Major shareholders were consulted ahead of the appointment who were supportive of the change. It is relatively unusual for the CEO to become Executive Chairman but the Board considered that the circumstances were exceptional and the reasons for this change include the following:

- 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 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;

- Robert will also focus on new business development in new territories and new product categories; and
- It is planned that, on completion of the joint venture transition process in 2020, Robert will become Non-Executive Chairman.

There is a clear written division of responsibilities between the Executive Chairman and the Chief Executive which has been agreed by the Board.

### Non-Executive Directors

The Non-Executive Directors, including the Senior Independent Director, are considered to be independent all having served for three years or fewer. 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.

### Board balance

The balance of the Board is currently 50% independent with three Executive Directors (including the Executive Chairman) and three independent Non-Executive Directors.

### 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 will in future retire at each Annual General Meeting.

### 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. During the current financial year the only conflict of interest identified related to the negotiations to acquire a UK based sous vide manufacturer in which Philip Heffer was also a director. Appropriate procedures were put in place accordingly which included Philip not voting on any matters relating to this transaction proposed to the Board.

### Information and support provided to Board members

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

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

### Board responsibilities

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

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

- 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 49 to 68.

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	9	90%
Philip Heffer	10	100%
Nigel Majewski	10	100%
Colin Smith	6	100%
John Worby	10	100%
Christine Cross	10	100%
Angus Porter	3	75%

# Corporate governance statement

## continued

### Performance evaluation

The Executive Chairman leads a formal annual performance evaluation of the Board and its standing Committees and meets with the Non-Executive Directors at least once a year to convey his conclusions. 2018 was a year of transition for the Board and hence an internal evaluation process was conducted involving each Director completing a detailed written questionnaire with the opportunity to comment on any issue not directly covered by the questionnaire. The responses were analysed and considered by the Board who have concluded that the Directors, the Board and its standing Committees continue to perform effectively. The Non-Executive Directors met once during the year without the Executive Chairman present in order to evaluate his performance. The last external evaluation process was in 2011/12.

### Shareholder communications

The Board promotes open communication with shareholders. 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 06 and 39. 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](http://www.hiltonfoodgroupplc.com).

### Risk management and internal control

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

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 and 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 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.

By order of the Board

**Neil George**

Company Secretary  
26 March 2019

# Report of the Audit Committee

## Chairman's introduction

I am pleased to report on the activities of the Audit Committee for the 52 weeks ended 30 December 2018.

## Role of the Committee

The Audit Committee is established by the Board of Directors. Terms of reference formalise the roles, tasks and responsibilities of the Committee to comply with the UK Corporate Governance Code and to achieve best practice. The Committee terms of reference are available and can be found on the Company's website at [www.hiltonfoodgroupplc.com](http://www.hiltonfoodgroupplc.com).

The Committee meets at least three times per year.

## Membership of the Committee

Members of the Committee are appointed by the Board on the recommendation of the Nomination Committee and comprise the Chairman of the Committee, John Worby, the other Independent Non-Executive Directors, Christine Cross and Angus Porter (from his appointment), and the Non-Executive Chairman of the Board, Colin Smith (until his retirement). 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, Chief Financial Officer, Internal Auditor and the external auditors are invited to attend meetings as appropriate. The external auditors and the Internal Auditor have the opportunity for direct access to the Committee without the Executive Directors being present.

## Responsibilities of the Committee

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

- to monitor the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance, reviewing significant financial reporting judgements contained in them;

- to review the Company's internal financial controls and internal control and risk management systems;
- to monitor and review the effectiveness of the Company's internal audit function;
- to consider and make recommendations to the Board, to be put to shareholders for their approval in general meeting, in relation to the appointment, reappointment and removal of the external auditors and to approve the remuneration and terms of engagement of the external auditors;
- to review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements;
- to develop and implement policy on the engagement of the external auditors to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm;
- 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 and make whatever recommendations it deems appropriate on any area within its remit where action or improvement is needed.

## Attendance at meetings of the Audit Committee

	Number attended	Percentage attended
John Worby	3	100%
Colin Smith	2	100%
Christine Cross	3	100%
Angus Porter	1	100%

## How the Committee has discharged its responsibilities

During 2018 the Committee met three 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 auditors and reviewed supporting papers in respect of these matters.

The key areas of focus during the year were:

- an assessment of the Group's cost plus contracts in relation to IFRIC 4 to determine whether they contain a lease. The Committee particularly focused on new contracts entered into during the year. As in previous year the Committee remains comfortable that there are no such implied lease arrangements.
- a review of revenue recognised on the Group's major contracts. The external auditors identified complex supplier arrangements as an areas of audit focus and the Committee fully considered these issues, including a review of accruals in relation to these contracts at the year end. The Committee concurred with the accruals made. Revenue recognition for Hilton Foods Australia was also reviewed following the assumption of full operational control of the two joint venture plants from July 2018. In light of the continuing oversight by the joint venture, the Committee concurred with the treatment of revenue on a net basis, as noted in the estimates and judgements on page 90, until Hilton assumes full responsibility which is expected to occur in 2020. As Hilton's contracts with its customers include pre-agreed and pre-defined revenue parameters, performance measures and targets there were no other significant estimates or judgements involved in relation to these contracts.
- a review of the Seachill acquisition intangible assets. A goodwill impairment review was conducted which concluded that the value in use exceeds the carrying value.

# Report of the Audit Committee

## continued

– a review of accounting developments. The Committee reviewed the impact of new IFRS standards effective in the year. There were no material changes in accounting under IFRS 9 Financial Instruments and only minor reclassification adjustments under IFRS 15 Revenue Recognition. The Committee considered the expected impact of IFRS 16 Leases which is effective from 1 January 2019. The Committee noted it is expected that leases with a value of £94m-£98m at 30 December 2018 will be included on the balance sheet under this new standard and agreed the required disclosure of the impact in the financial statements ahead of implementation of the standard next year.

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.

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

### Risk management and internal controls

During the year the Internal Auditor reported to the Committee on the internal audit work performed 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 reviewed the work done by the Risk Committee and the updated Risk Register and in the light of the work done, 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 auditors. It is the Committee's responsibility under its terms of reference to make recommendations to the Board on the appointment, reappointment or removal of external auditors.

Article 17 of EU Regulation 537/2014 enacted into UK law 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 auditors, PricewaterhouseCoopers LLP (PwC), were appointed in 2007 and reappointed in 2016 following a public audit tender process. Their lead partner is rotated every five years to ensure continued objectivity and independence with the next rotation due in 2019. The engagement partners on key components are required to rotate every five years.

Meetings were held with the external auditors before the audit to agree their audit plan and after their audit work to discuss their key audit findings.

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

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

### Non-audit services and fees

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

The level of non-audit fees was reviewed which in 2018 at £78,000 (including £48,000 for work in connection with the half year review) represents 18% of audit fees in the year and an average of 71% over three years which compares with the 70% EU cap even though such cap does not apply until 2020. Excluding items required by EU or national legislation the 3-year average of non-audit fees was 22% of audit fees. Further details of these costs can be found in note 6 on page 92. The Committee considers that this level of non-audit fees does not affect the independence of the external auditors.

### Other

The Committee reviewed and updated its terms of reference.

### Conclusion

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

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

On behalf of the Audit Committee

### John Worby

Chairman  
26 March 2019

# 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 30 December 2018.

## Role of the Committee

The Nomination Committee is established by the Board of Directors. Terms of reference formalise the roles, tasks and responsibilities of the Committee to comply with the UK Corporate Governance Code and to achieve best practice. The Committee terms of reference are available and can be found on the Company's website at [www.hiltonfoodgroupplc.com](http://www.hiltonfoodgroupplc.com). The Nomination Committee leads the process for Board appointments.

The Committee meets on an as required basis.

## Membership of the Committee

Members of the Committee comprise all the Non-Executive Directors chaired by the Chairman of the Board. Following the retirement of Colin Smith on 1 July 2018, Robert Watson leads the Committee as Executive Chairman.

## Responsibilities of the Committee

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

- to review the structure, size and composition of the Board including skills, knowledge, experience and diversity (including gender) and make recommendations to the Board with regard to any changes;
- to give consideration to succession planning for Directors and other senior executives and identify appropriate candidates for the approval of the Board;
- to oversee new appointments to the Board;
- to review the results of the Board performance evaluation relating to the composition of the Board; and
- to review the time requirements of Non-Executive Directors.

## Attendance at meetings of the Nomination Committee

	Number attended	Percentage attended
Colin Smith	1	100%
John Worby	1	100%
Christine Cross	1	100%

## How the Committee has discharged its responsibilities

During 2018 the Committee met once and considered a range of topics including resource and succession planning.

As part of the succession planning process the Committee considered the composition of the Board and the best interests of the Company. Accordingly on the recommendation of the Committee the Board asked Robert Watson to become Executive Chairman and it is planned that Robert will become Non-Executive Chairman of the Company in 2020. In turn Philip Heffer was invited to become CEO having all the necessary skills. The Committee approved amended roles and responsibilities of the Executive Chairman and CEO.

In order to maintain a strong and well-balanced Board the Committee considered and recommended the appointment of Angus Porter as an additional Non-Executive Director. The Company developed a strong shortlist of candidates with the assistance of its existing advisors and therefore did not use external search consultants or open advertising during this process.

Hilton continues to develop management structures to promote its talent pipeline as part of a succession planning process covering the Directors and senior management positions 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.

## 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  
26 March 2019

# 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 30 December 2018. 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 2016 UK Corporate Governance Code (the 'Code') and the UK Listing Authority Listing Rules (the 'Listing Rules').

2018 was another outstanding year with the Group delivering significant adjusted profit and earnings per share (EPS) growth of over 27% and 13% respectively. Additionally Seachill was successfully integrated, we started production in Australia and took over operational control of two joint venture plants there and also agreed a strategic investment in a vegetarian product manufacturer. The performance demonstrated our strategic intent to grow existing and new customers, new categories and new markets.

### Directors' remuneration major decisions and substantial changes

#### New remuneration policy

The objective of the policy continues to be to ensure that executive remuneration is in line with good practice, that it is competitive but not excessive by market standards and it is aligned with our strategic objectives and the interests of our shareholders and wider stakeholders. The current remuneration policy was approved by shareholders in 2017 and is not therefore due for renewal until 2020. However the Committee feels that it is appropriate to bring forward this renewal to the 2019 AGM in light of the following substantial business developments:

- the significant increase in size and complexity of the business since the last major review carried out in 2012. Since then revenue, market capitalisation, numbers of employees, production sites and countries operated have all increased significantly as the Group continues its transformation into a global business. In particular geographical expansion has extended into Australasia and fresh convenience products launched in Central Europe. Additionally Hilton is now committed to joint venture relationships in partnership with our retail customers which also brings more complexity to the Group. Lastly, our expansion through acquisition into fish and vegetarian protein categories brings new skill sets to evaluate;
  - completion of a Board restructuring exercise during the year including the transition of the Chief Executive to Executive Chairman and promotion of the Chief Operating Officer to Chief Executive Officer; and
  - changes to the Code which apply from 1 January 2019.
- The Committee conducted a comprehensive review covering the Executive Directors' packages including incentive plans. This review concluded that the annual bonus opportunity should remain unchanged at 125% of base salary, but that other elements of performance related pay be reassessed. A summary of the proposed key changes to the remuneration policy are as follows:
- an increase in the maximum annual LTIP award from 100% of salary to 175% of salary. The 200% of salary exceptional award limit will be removed from the policy. Noting that the existing 100% of salary limit has remained unchanged since it was introduced in 2012, the Committee wishes to adjust LTIP levels to appropriately reflect the increased size and complexity of the business and to ensure that packages are appropriately weighted to the Group's long-term performance. However, notwithstanding that majority practice in the FTSE is for 25% of LTIP awards to vest for threshold performance levels, the Committee wishes to retain the 10% threshold currently operated for the EPS targets;
  - the introduction of a second performance metric being a relative total shareholder return (TSR) measure for 30% of LTIP awards in addition to the current EPS performance metric which will now have a 70% rating. The introduction of an objective share price-linked measure will increase alignment between management and shareholders and provide a more balanced incentive compared to the sole use of EPS. The Committee considers that it is appropriate that this metric, to be measured over the three financial years commencing with the year of grant, will also have a 10% threshold for median performance. It is anticipated that this additional metric would be used for the 2019 and future LTIP awards;
  - the introduction of a two year post vesting holding period on all LTIP awards granted after the 2019 AGM which is consistent with the new Code; and
  - increased shareholder protections. The shareholding guidelines for the Chief Financial Officer (and any future Executive Director appointment) will be increased from 100% to 175% of base salary. Shareholding guidelines for the Executive Chairman and Chief Executive will remain at 300% of salary. No changes will be made to the post cessation shareholding policy, whereby 50% of any shareholding requirement needs to be retained for at least 12 months post cessation. In addition to the increased shareholding guideline, malus and clawback provisions for the bonus and LTIP have been reviewed and enhanced where necessary.

## 2018 pay outcomes

Hilton's performance continues to be strong, outperforming its comparator indices. 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.

### Annual bonus

For the financial element the Group's underlying adjusted profit before acquisition intangible amortisation and tax exceeded the target by 4.9%. This resulted in performance above threshold but below maximum resulting in a bonus of 78.1% of salary out of a maximum of 105% of salary.

This is augmented by the strategic element bonus for the Executive Directors which is calculated by reference to personal objectives which include management development, implementing the strategic plan, new business development, succession planning together with investor and analyst retention. Effective implementation of business change and leadership transition has relied upon the collaborative working of all three Executive Directors. The successful integration of Seachill, the speed of progress in Australia, new business won with existing customers, entry into the vegetarian market, plus the strengthening of the Executive team are key call outs. Hence, the Committee agreed that on a combined assessment of performance the Executive Directors achieved well above their objectives and accordingly the Committee recommended that 20% of salary became payable out of a maximum of 20% to each Executive Director.

In aggregate a total bonus of 98.1% of salary is payable in respect of 2018 performance out of a maximum of 125% of salary.

## Long Term Incentive Plan

The LTIP award granted in 2016 and due to vest in 2019 was subject to performance against stretching EPS targets. Threshold performance was set at EPS growth of 5% per annum whereby 10% of the options would vest, rising to EPS growth of at least 17% per annum whereby 100% of the options would vest. Following the end of the three year performance period ended 30 December 2018, compound annual EPS growth of 15.4% was achieved and it is expected that there will be vesting of 88.1% 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.

## 2019 implementation

### Base salaries

In reviewing salaries for 2019, the Committee considered Company and individual Director performance, changes in responsibility and levels of increase in the sector for the broader UK employee population.

Accordingly the Committee agreed base salary increases of 2% for Robert Watson and Philip Heffer effective from 1 January 2019 in line with the increase of the general workforce. For Nigel Majewski a 10% increase has been awarded reflecting the increased scale and complexity of his role particularly from an international growth perspective as the Company continues to deliver on its various strategic initiatives.

The Committee has undertaken that any future increases in Executive Directors salaries over the three years of the new remuneration policy will be capped at no more than the increase of the general workforce except in the case of a promotion or substantive business expansion, where a larger increase may be considered.

The Committee is mindful of the need to nurture a strong talent pipeline and therefore assist with the Board's succession planning, essential at Hilton where Directors have had considerable longevity. Given the growth in business categories and geographies, planning of resource implications is well in hand.

### Variable pay

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

The 2019 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 is 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.

Under proposed changes to the remuneration policy and subject to shareholder approval, the 2019 LTIP awards for Executive Directors will be increased to 175% of salary with vesting determined by stretching EPS and relative TSR performance targets. In addition, a number of changes will be made to the LTIP rules to reflect developments in best practice. The grant of the 2019 LTIP awards are expected to be made after the 2019 AGM.

### Use of discretion

There were no issues during the year over which the Committee was required to use its discretion.

# Directors' remuneration report

## continued

### Other

The Committee's terms of reference were updated primarily to reflect the new Code which became effective from 1 January 2019 which expands the Committee's remit to cover workforce remuneration and associated policies including a provision for workforce engagement. Angus Porter has been designated as the Non-Executive Director for engaging with the workforce.

Our management is developing appropriate reporting mechanisms to provide the Committee with this additional context throughout the year which will be taken into account when setting the remuneration for its Executive Directors. The Committee will also have responsibility for ensuring these policies and processes support the culture, purpose, values and diversity initiatives across the Group. We intend to report on these activities in next year's Remuneration report.

### 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.

On this basis the 2019 Remuneration report will include further details of how the provisions of the new UK Corporate Governance Code have been implemented as well as disclosure of the 2019 CEO pay ratio.

In addition the 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

In proposing the changes to the remuneration policy which will be taken to the 2019 AGM, the Committee has consulted with Hilton's top ten institutional shareholders and the major shareholder representative bodies. I would like to thank investors and the representative bodies for their positive feedback on the proposals, which the Committee considered in detail and which has helped to formulate the remuneration policy contained in this report. As a result of the proposed changes to the remuneration policy, the following resolutions relating to remuneration will be presented at the 2019 AGM:

- The binding resolution on the proposed remuneration policy report contained within this Directors' remuneration report;
- The advisory resolution on the remuneration paid to the Directors in the 52 weeks ended 30 December 2018 and the operation of the policy for 2019 as set out in the Annual report on remuneration;
- A resolution to reapprove the Hilton Long Term Incentive Plan rules, originally approved by shareholders in 2012, which have been updated to align them to best practice in respect of a number of provisions (e.g. dividend equivalents, malus and clawback); and
- A resolution to approve the Hilton Sharesave Plan rules which have reached the end of their 10 year life and which have been updated to reflect recent changes in legislation.

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 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 2017 Annual General Meeting and became effective from the date of that meeting. For the reasons set out in the Annual Statement a new policy, as set out below, will be proposed as a resolution subject to a binding shareholder vote at the Company's 2019 Annual General Meeting.

The new policy takes into account the provisions of the new UK Corporate Governance Code which is effective from 1 January 2019 and other good practice guidelines from institutional shareholders and shareholder bodies. Subject to approval by shareholders it will become effective from the 2019 AGM date and shall be in place for the next three year period unless a new policy is presented to shareholders before then. All payments to Directors during the policy period will be consistent with the approved policy.

### Overview of remuneration policy

The 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.
- A summary of the key changes arising from the remuneration review proposed for inclusion in the new remuneration policy are as follows:

- An increase to the annual LTIP award from 100% of salary to 175% of salary, albeit the exceptional award limit which permits awards of up to 200% of salary has been removed;
- The introduction of a relative total shareholder return (TSR) measure for 30% of LTIP awards (the vesting of current LTIP awards is solely based on absolute earnings per share growth targets). It is anticipated that this new metric would apply to 2019 and future LTIP awards;
- The introduction of a two year post vesting holding period on all LTIP awards granted after the 2019 AGM; and
- Increased shareholder protections. The shareholding guidelines for Chief Financial Officer (and any future Executive Director appointment) will be increased from 100% to 175% of base salary. Shareholding guidelines for the Executive Chairman and Chief Executive will remain at 300% of salary. In addition, malus and clawback provisions in the bonus and LTIP have been reviewed and enhanced where necessary.

### 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	<p>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).</p> <p>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.</p> <p>The Committee considers the impact of any base salary increase on the total remuneration package.</p> <p>Pay levels throughout the organisation are also taken into account in order to ensure adequate provision for timely succession.</p>	<p>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).</p> <p>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.</p>

# Directors' remuneration report

## continued

Element	Purpose and link to strategy	Operation	Maximum opportunity
Benefits	To provide market competitive benefits to ensure the retention of employees	<p>The Company typically provides:</p> <ul style="list-style-type: none"> <li>Company car and fuel;</li> <li>Private healthcare; and</li> <li>Other ancillary benefits, including relocation expenses (as required).</li> </ul> <p>Any reasonable business related expenses (including tax thereon) may be reimbursed.</p> <p>Executive Directors are eligible for other benefits which are introduced for the wider workforce on broadly similar terms.</p>	<p>The value of traditional benefits is based on the cost to the Company and is not pre-determined.</p> <p>Relocation expenses or benefits will take into account the nature of the relocation and will be provided on a fair and reasonable basis.</p>
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	<p>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.</p> <p>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.</p> <p>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.</p> <p>At the start of the performance year, the Committee may determine that a proportion of the bonus is deferred in shares.</p> <p>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.</p> <p>Bonuses are subject to malus and claw-back provisions in circumstances of misstatement, error or gross misconduct.</p>	Up to 125% of base salary.

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	<p>Under its Long Term Incentive Plan (LTIP) Hilton makes annual awards of conditional shares or nil cost options to selected senior executives.</p> <p>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.</p> <p>The performance measures will be based on financial (e.g. EPS) and/or share-price related (e.g. relative TSR) performance targets.</p> <p>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.</p> <p>Awards are subject to malus and claw-back provisions for three years following vesting in circumstances of material misstatement, error or misconduct.</p> <p>A two year post vesting holding period will operate for all LTIP awards granted to Executive Directors after the 2019 AGM.</p> <p>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.</p> <p>The Committee has the discretion in certain circumstances to grant and/or settle an award in cash.</p>	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	<p>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.</p> <p>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.</p> <p>No performance conditions attach to options granted under the Scheme.</p>	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	<p>Executive Directors are expected to build a holding in the Company's shares equal to a minimum value of 300% of base salary for the Chief Executive and Chief Operating Officer and 175% of base salary for all other Directors.</p> <p>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).</p>	N/A

# Directors' remuneration report

## continued

Element	Purpose and link to strategy	Operation	Maximum opportunity
Post cessation guidelines		Half of the shareholding guideline requirement will apply for 12 months post-employment.	
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	<p>The Non-Executive Directors receive fees for carrying out their duties.</p> <p>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.</p> <p>Neither the Chairman nor the Non-Executive Directors are eligible for any performance related remuneration.</p> <p>Non-Executive Director remuneration is determined by the Non-Executive Chairman and the Executive Directors. The Non-Executive Chairman's remuneration is determined by the Remuneration Committee. If there is a temporary yet material increase in the time commitments for Non-Executive Directors, the Board may pay extra fees on a pro-rata basis to recognise the additional workload.</p> <p>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.</p> <p>Any reasonable business-related expenses (including tax thereon) can be reimbursed if determined to be a taxable benefit.</p>	<p>As for the Executive Directors, there is no prescribed maximum annual increase.</p> <p>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.</p>

### Notes

- 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.
- 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.

## Other policy information

Element	Description
Non-UK based Directors and foreign currency translation	<p>Directors may be employed who are based outside of the UK and therefore subject to the employment laws and accepted practice for that country which may be different to those in the UK. The Committee will ensure that any future overseas based Directors are remunerated on an equivalent basis as in the UK albeit that it may be necessary to satisfy local statutory requirements.</p> <p>Remuneration to overseas Directors paid in foreign currencies is, for disclosure purposes, translated into Sterling at the average exchange rate for the relevant year.</p>
Approach to recruitment	<p>The remuneration package for a new Executive Director would be set in accordance with the terms of the Company's approved remuneration policy in force at the time of appointment. For the appointment of a new Chairman or Non-Executive Director, the fee arrangement would be set in accordance with the approved remuneration policy in force at that time.</p> <p>The salary for a new Executive Director 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.</p> <p>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.</p> <p>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.</p> <p>For an internal Executive Director appointment, any variable pay element awarded in respect of the prior role will be allowed to pay out according to its terms. In addition, any other ongoing remuneration obligations existing prior to appointment may continue.</p> <p>For external and internal Executive Director appointments the Committee has the discretion to pay ongoing relocation costs for a reasonable period, as well as one-off payments (assuming they are fair and reasonable).</p> <p>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.</p>
Payment for loss of office	<p>Payments for loss of office are made in accordance with the terms of the Directors' service contracts as below.</p> <p>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.</p> <p>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.</p> <p>In accordance with its terms of reference the Committee ensures that contractual terms on termination, and any payments made, are fair to the individual, and the Company, that failure is not rewarded and that the duty to mitigate loss is fully recognised. 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.</p>
Consideration of shareholder views	<p>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.</p> <p>In addition, we engage actively with our largest shareholders and consider the range of views expressed.</p>
Consideration of employment conditions elsewhere in the Group	<p>The Committee takes into account the general employment reward packages of employees across the Group when setting policy for Executive Director remuneration 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.</p>

# Directors' remuneration report

## continued

### Director service contract and other relevant information

Provision	Executive Directors	Non-Executive Directors
Term	All appointed on 24 April 2007 with no fixed term	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.

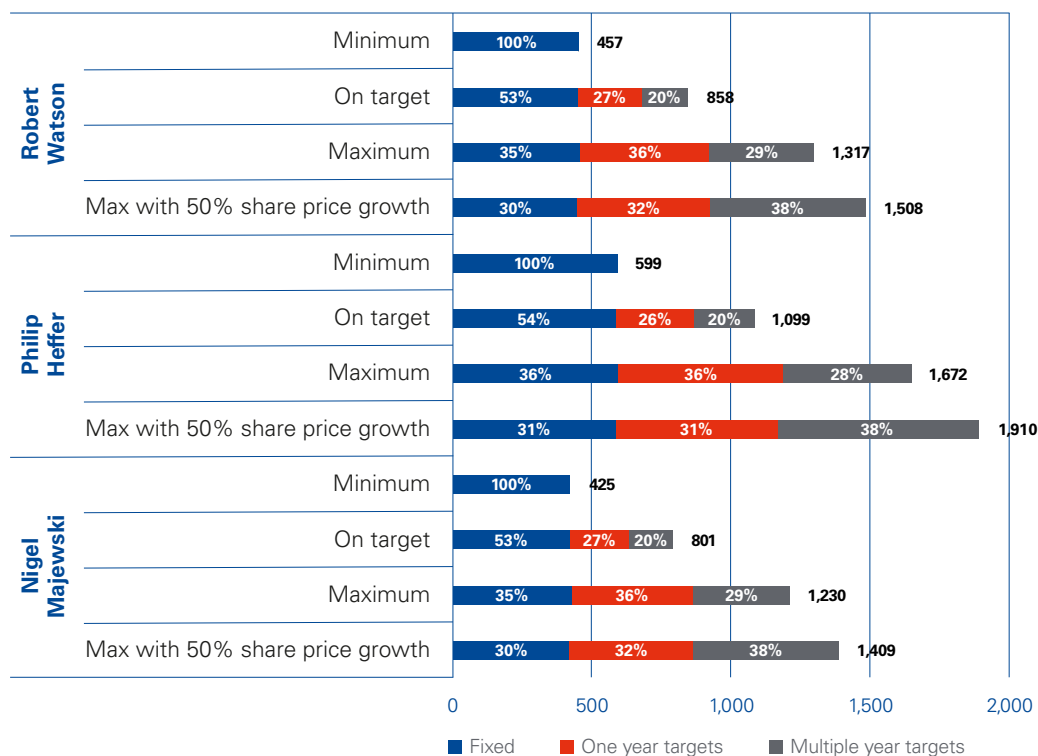
### Legacy arrangements

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

### Illustration of future application of remuneration policy

The chart below illustrates 2019 Executive Directors' remuneration at different levels of performance under the remuneration policy.

#### 2019 Director remuneration illustration £'000



#### Notes

1. Fixed elements of pay comprise salary and fees, benefits and pension. Salary and fees include known increases, benefits are included at 2018 levels and pension is calculated at the approved percentage rates.
2. One year targets represent the annual bonus. The minimum scenario assumes no bonus on the basis that threshold is not reached, the on target scenario assumes an aggregate 60% of salary bonus, and the maximum scenario assumes the full 125% bonus.
3. Multiple year targets comprise long term incentives. The minimum scenario assumes that threshold performance is not reached with no awards vesting, the on target scenario is based on 45% of the awards vesting and the maximum scenario reflects the maximum performance with 100% of the awards vesting.
4. The basis of the calculation of the share price appreciation is that the share price embedded in the calculation for the 'maximum' bar chart is assumed to increase by 50% across the performance period.

# Directors' remuneration report

## continued

## Annual report on remuneration

### Role of the Committee

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

The Committee meets at least twice per year.

### Membership of the Committee

Members of the Committee are appointed by the Board on the recommendation of the Nomination Committee and in consultation with the Chair of the Remuneration Committee. In 2018 the Committee comprised the independent Non-Executive Directors Christine Cross and John Worby and the Non-Executive Chairman of the Board Colin Smith who was considered to be independent on appointment. Angus Porter joined the Committee as a further independent Non-Executive Director during the year with Colin Smith retiring. The Committee is chaired by Christine Cross.

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 UK Corporate Governance 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	4	100%
Colin Smith	2	100%
John Worby	4	100%
Angus Porter	2	100%

### Remuneration Committee key activities

Appointed independent remuneration consultants to advise the Committee  
Reviewed the existing Remuneration Policy and proposed amendments  
Reviewed Executive Directors' base salaries

Set objectives for the annual bonus arrangements for 2019 for Executive Directors

Reviewed the achievement of the Executive Directors' bonus arrangements against 2018 targets

Reviewed the outcome of performance conditions for the LTIP awards which were granted in 2015

Approved LTIP awards granted in 2018

Reviewed the Committee's terms of reference

Reviewed the 2018 Remuneration Report

Approved the issue of the Sharesave scheme for 2018

### External advisors

During the year the Committee appointed FIT Remuneration Consultants LLP to provide advice on remuneration matters. FIT replaced New Bridge Street during 2018, following a tender process. FIT's fees for advice provided to the Remuneration Committee from appointment were £19,839. New Bridge Street's fees for 2018, up to the date FIT was appointed, were £9,690. 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](http://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 30 December 2018 the headroom available under these limits was 2.4% and 0% respectively.

### Statement of voting at Annual General Meeting

The following table shows the voting results in respect of the 2017 Directors' remuneration report (other than the Directors' remuneration policy) at the 2018 AGM and the last time the Remuneration Policy was approved by shareholders at the 2017 AGM:

	Approve Directors' remuneration report	Approve Directors' remuneration policy
AGM year	2018	2017
Resolution type	Advisory	Binding
Votes for	55,979,884	44,266,959
%	96.63%	98.21%
Votes against	1,950,765	807,103
%	3.37%	1.79%
Votes withheld	4,346	3,170,316

The remainder of this section is subject to audit.

## Single total figure table of remuneration

The remuneration of individual Directors is set out below.

	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
52 weeks to 30 December 2018						
<b>Executive Directors</b>						
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
<b>Non-Executive Directors</b>						
Colin Smith (retired 1 July 2018)	55	–	–	–	–	55
John Worby	55	–	–	–	–	55
Christine Cross	55	–	–	–	–	55
Angus Porter (appointed 1 July 2018)	25	–	–	–	–	25
<b>Total</b>	<b>1,401</b>	<b>81</b>	<b>1,188</b>	<b>1,496</b>	<b>181</b>	<b>4,347</b>

	Salary and fees £'000	Benefits £'000	Annual bonus £'000	Long term incentive £'000	Pension £'000	Total £'000
52 weeks to 31 December 2017						
<b>Executive Directors</b>						
Robert Watson	468	28	468	536	70	1,570
Philip Heffer	361	48	361	429	54	1,253
Nigel Majewski	351	10	351	429	53	1,194
<b>Non-Executive Directors</b>						
Colin Smith	110	–	–	–	–	110
John Worby	55	–	–	–	–	55
Christine Cross	55	–	–	–	–	55
<b>Total</b>	<b>1,400</b>	<b>86</b>	<b>1,180</b>	<b>1,394</b>	<b>177</b>	<b>4,237</b>

### Notes

#### 1. Salary and fees

2018 salaries reflect a 2% increase for all the Executive Directors on 2017. The salaries of Robert Watson and Philip Heffer changed following the Board restructuring.

#### 2. Benefits

Benefits provided comprised company car and fuel and private healthcare.

#### 3. Annual bonus

The 2018 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 2018 for all Executive Directors is summarised below.

Bonus element	Metric	Threshold performance	Target performance	Maximum stretch target	2018 achieved
Financial	Profit before tax	£37.1m	£43.5m	£47.8m	£45.7m
	% against target	85%	100%	110%	105.1%
	% of base salary	20%	50%	105%	78.1%
Strategic	% of base salary			20%	20.0%
Total	% of base salary			125%	98.1%

# Directors' remuneration report

## 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. The Committee agreed that on a combined assessment of performance the Executive Directors achieved well above their objectives.

Objectives	Achievements	Assessment
1. Oversight and implementation of the new CEO-1 and CEO-2 management structure, with measurement and personal plans for all team members	Structure embedded and roles filled through internal talent and key external hires especially in new geographies. Leadership conference and town hall programme begun.	100%
2. Ensure all drivers in place to deliver the revised five year strategic plan including finance, people, resource support	Bank refinancing secured, talent mapped and succession planning in place.	100%
3. Incremental new business development	Customer opportunities, categories and geographies mapped. Australia JV restructure completed. Dalco JV in place with completion approval. Sous vide acquisition negotiations.	100%
4. Building stakeholder equity	Wider stakeholder engagement including new investors and regulators. High level of advocacy among the investor community.	100%
5. Leading the development of HFGs culture, talent and diversity	Employee engagement metrics positive, achieved targeted improvements in diversity and new sustainability initiatives.	100%

The Executive Directors were deemed to have fully met the targets set through collaborative working as detailed in the Annual Statement on page 53 and therefore earned a full 20% bonus.

#### 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 2016 under the Long Term Incentive Plan which are due to vest in 2019 subject to performance conditions covering the three financial years 2016-2018. The expected long term incentive outcome is summarised below.

Metric	Threshold performance	Maximum performance	2018 achieved	Director	Awards granted No.	Awards expected to vest 88.1% No.	Value at year end share price of £9.02 £'000
2016-18 EPS % annual growth	5%	17%	15.4%	Robert Watson	74,055	65,242	588
Vesting %	10%	100%	88.1%	Philip Heffer	57,090	50,296	454
				Nigel Majewski	57,090	50,296	454

The long term incentive values for 2017 have been restated based on the actual vesting percentage (72.9% compared with 69.8% estimate) and actual share price at vesting (£8.52 instead of the 2017 year end share price of £8.64).

#### 5. Pension

Payments were made during 2018 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 2018.

#### 7. Payments for loss of office

There were no payments for loss of office made in 2018.

## Director shareholding and share interests

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

Director	Type	At 31 December 2017	Granted (note 4)	Exercised	Lapsed	At 30 December 2018	Exercise price (pence)	Earliest exercise date	Latest exercise date	Notes
Robert Watson	Shares	2,626,085				2,519,414				1
	Share options	2,142	–	(2,142)	–	–	420.00	01.06.18	01.12.18	2
	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	3,536	1,084	(2,142)	–	2,478				
	Nil cost options	86,359	–	(62,956)	(23,403)	–	nil	20.04.18	20.04.25	3
	Nil cost options	74,055	–	–	–	74,055	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
	Total nil cost options	225,651	39,139	(62,956)	(23,403)	178,431				
Philip Heffer	Shares	4,181,030				4,183,172				1
	Share options	2,142	–	(2,142)	–	–	420.00	01.06.18	01.12.18	2
	Share options	1,394	–	–	–	1,394	645.50	01.06.20	01.12.20	2
	Total share options	3,536	–	(2,142)	–	1,394				
	Nil cost options	34,840	–	(34,840)	–	–	nil	28.04.17	28.04.24	3
	Nil cost options	69,088	–	(50,365)	(18,723)	–	nil	20.04.18	20.04.25	3
	Nil cost options	57,090	–	–	–	57,090	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
	Total nil cost options	211,310	48,873	(85,205)	(18,723)	156,255				
Nigel Majewski	Shares	100,293				102,435				1
	Share options	2,142	–	(2,142)	–	–	420.00	01.06.18	01.12.18	2
	Share options	1,394	–	–	–	1,394	645.50	01.06.20	01.12.20	2
	Total share options	3,536	–	(2,142)	–	1,394				
	Nil cost options	34,840	–	–	–	34,840	nil	20.04.18	20.04.25	3
	Nil cost options	69,088	–	–	(18,723)	50,365	nil	20.04.18	20.04.25	3
	Nil cost options	57,090	–	–	–	57,090	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
	Total nil cost options	209,938	40,528	–	(18,723)	231,743				
John Worby	Shares	9,000				9,000				1
Christine Cross	Shares	15,000				15,000				1
Angus Porter	Shares	–				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, Chief Executive and Chief Operating Officer and 100% of base salary for all other Executive Directors. At 30 December 2018 Robert Watson held shares whose value by reference to the year end share price as a proportion of his salary was 5,949% with Philip Heffer at 7,910% and Nigel Majewski at 258% 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. Since the end of the year Robert Watson sold 50,000 shares. There have been no other changes in the interests of Directors between 30 December 2018 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 period	Threshold vesting	Compound annual EPS growth at threshold vesting	Maximum vesting	Compound annual EPS growth at maximum vesting
2014	2014–2016	25%	8%	100%	13%
2015	2015–2017	10%	6%	100%	18%
2016	2016–2018	10%	5%	100%	17%
2017	2017–2019	10%	6%	100%	14%
2018	2018–2020	10%	6%	100%	14%

# Directors' remuneration report

## continued

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

Director	Face value	Number of shares under 2018 LTIP award	Proportion of salary	Share price date	Share price
Robert Watson	£382,000	39,139	100%	2 July 2018	976.00p
Philip Heffer	£477,000	48,873	100%	2 July 2018	976.00p
Nigel Majewski – intended grant*	£358,270	40,528	100%	7 May 2018	884.00p
Nigel Majewski – actual grant*	£395,552	40,528	110%	2 July 2018	976.00p

\* The grant date in respect of the LTIP awards above were delayed until the completion of the Board restructuring process in respect of Robert Watson and Philip Heffer. Although Nigel Majewski was not directly impacted by the changes, his award was also delayed to allow the Executive Directors' LTIP awards to be granted at the same time on 2 July 2018. However, and as permitted under the LTIP rules, to ensure that Nigel Majewski was not disadvantaged and kept whole by this delay in respect of the number of shares under award, the Committee agreed that his award should be based on the share price at the time his award should have been granted (i.e. at the time of the main 2018 LTIP grant date in May 2018) rather than the share price at his delayed grant date.

## Further information

### Statement of implementation of remuneration policy in the 2019 financial year

#### Base salaries, benefits and pension

For 2019 Executive Director salaries for Robert Watson and Philip Heffer have increased by 2% in line with the increases of the general workforce. Nigel Majewski received a 10% increase reflecting the increased scale and complexity of his role.

	2018 £'000	2019 £'000
Robert Watson	382	390
Philip Heffer	477	487
Nigel Majewski	358	394

There are no changes in benefits and pensions.

#### Annual bonus

The maximum annual bonus in 2019 will continue to be set at 125% of salary. This bonus will be payable subject to stretching targets around the 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.

#### 2019 LTIP awards

Subject to approval of the new remuneration policy at the 2019 AGM, the Committee will grant LTIP awards to Executive Directors over shares equal to 175% of salary in 2019 based on the following EPS and TSR performance targets.

EPS – 70% of awards – 10% of this part of an award will vest for EPS growth of 6% p.a. increasing to full vesting for this part of an award for EPS growth of 15% p.a. measured over the three financial years commencing with the year of grant. The full vesting target represents considerable stretch given market demands; and

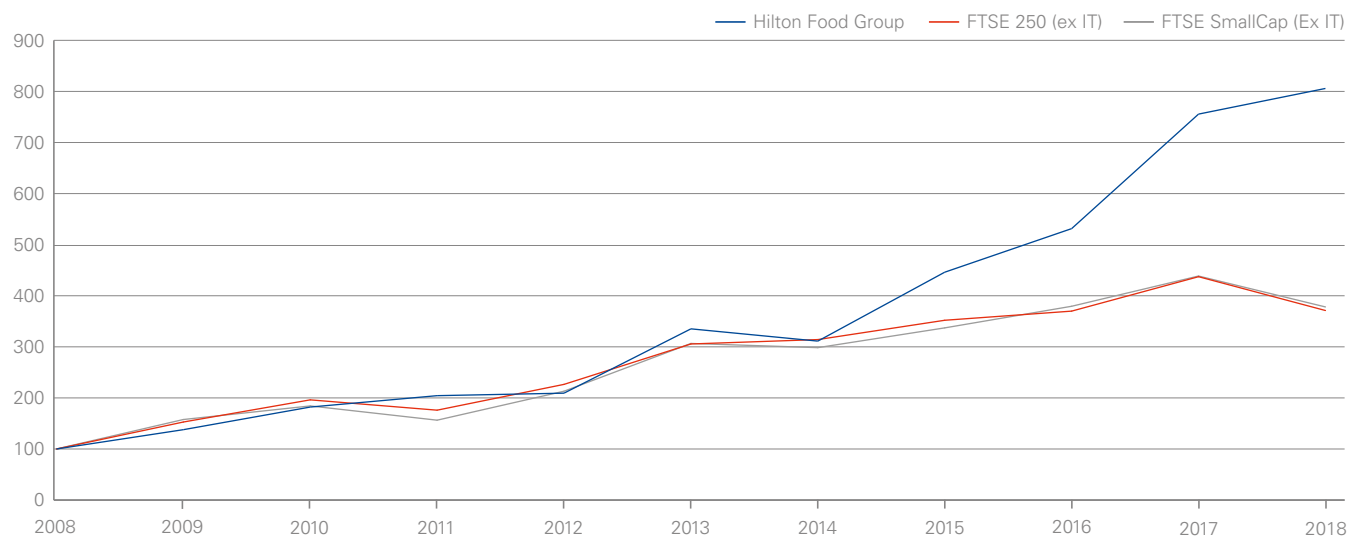
TSR – 30% of awards – 10% of this part of an award will vest for median performance against the constituents of the FTSE 250 (excluding investment trusts) increasing pro-rata to full vesting for this part of an award for upper quartile performance measured over the three financial years commencing with 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 and Christine Cross will increase by 5.5% in view of additional work in respect of Audit and Remuneration Committee with fees for Angus Porter remaining unchanged. 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 2009 to 2018. 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

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total remuneration (£'000)	584	644	730	593	610	626	784	1,235	1,570	1,627
Annual bonus (as a percentage of the maximum)	85%	63%	53%	10%	42%	32%	60%	69%	80%	78%
Long term incentive vesting (as a percentage of the maximum)	n/a	100%	100%	100%	n/a	0%	0%	61%	73%	88%

#### Notes

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

### Chief Executive Officer remuneration percentage trend

2018 percentage increase over 2017	CEO	Company average
Salary	2.0%	2%
Benefits	0.0%	n/a
Annual bonus	0.0%	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 14%, 0% and 23% respectively.

### Relative importance of spend on pay

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

	2018 £'000	2017 £'000	% change
Staff costs (note 8 to the financial statements)	127,584	94,685	35%
Dividends payable	17,462	15,100	16%

#### 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  
26 March 2019

# 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 42 and 43, 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 26 March 2019 and is signed on its behalf by:

**Robert Watson OBE**  
Executive Chariman

**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 30 December 2018 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 consolidated balance sheets as at 30 December 2018; the consolidated income statement and consolidated statement of comprehensive income, the consolidated cash flow statement, and the consolidated 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

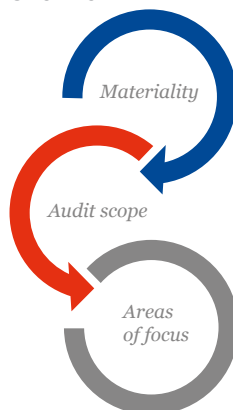
We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities 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 1 January 2018 to 30 December 2018.

#### Our audit approach

##### Overview



- Overall group materiality: £2,166,600 (2017: £1,853,000), based on 5% of profit before tax.
- Overall company materiality: £1,575,000 (2017: £1,574,000), based on 1% of total assets.

- Eight trading subsidiaries, together with four intermediary holding companies require local statutory audits and were in scope for group reporting.
- An Australian trading subsidiary and two joint venture companies (Australian and Portuguese) were subjected to specific audit procedures.

- Customer supply arrangements.

## 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. 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:

- Discussions with 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;
- Assessment of matters reported on the group's whistle-blowing helpline and the results of management's investigation of such matters;
- 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 the customer supply 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

#### Customer supply 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. The payments we had selected for testing were accrued for in the correct period.

# Independent auditors' report

## continued

### 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 18 subsidiary undertakings. There are eight trading subsidiaries located in the United Kingdom, the Republic of Ireland, the Netherlands, Poland, Denmark and Sweden; all of these entities are required to have statutory audits under local legislation. 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 Australian trading entity increased its operations in the year and specific audit procedures were performed in support of the Group audit. The remaining five 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 18 entities the Group has a 50% interest in joint venture companies located in Australia, Portugal and the United Kingdom. We did not consider the United Kingdom joint venture company to be significant to the Group and it was not therefore subject to audit procedures. The Australian and Portuguese joint ventures were material to the Group and were subject to specific audit procedures. The key protocols we adopted in respect of working with all component auditors were: i) issuing formal Group reporting instructions, which set out our requirements for the component auditors, together with our assessment of audit risks in the Group; ii) 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; iii) 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; iv) attending, with Group management, the component clearance meetings held between the component auditors and local management; and v) 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 audit procedures on the three significant risk areas: i) management override of controls; ii) the risk of fraud in revenue recognition; and iii) complex supply arrangements.

### 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
<b>Overall materiality</b>	£2,166,600 (2017: £1,853,000).	£1,575,000 (2017: £1,574,000).
<b>How we determined it</b>	5% of profit before tax.	1% of total assets.
<b>Rationale for benchmark applied</b>	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 an intermediate 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) (2017: £100,000) and £100,000 (Company audit) (2017: £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 company's ability to continue as a going concern over a period of at least 12 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 company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the group's trade, customers, suppliers and the wider economy.
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.

## 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, Directors' report and Corporate governance statement, 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 30 December 2018 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)

## Corporate Governance Statement

In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate governance statement (on pages 46 to 48) about internal controls and risk management systems in relation to financial reporting processes and about share capital structures in compliance with rules 7.2.5 and 7.2.6 of the Disclosure Guidance and Transparency Rules sourcebook of the FCA ("DTR") 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 this information. (CA06)

In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate governance statement (on pages 46 to 48) with respect to the company's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the DTR. (CA06)

We have nothing to report arising from our responsibility to report if a corporate governance statement has not been prepared by the company. (CA06)

# Independent auditors' report

## continued

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 pages 22 and 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 69, 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 49 and 50 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 Statements of Directors' responsibilities, 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](http://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 12 years, covering the years ended 31 December 2007 to 30 December 2018.

### Kevin MacAllister (Senior Statutory Auditor)

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

26 March 2019

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

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

# Financial statements



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For more information visit:  
[www.hiltonfoodgroupplc.com](http://www.hiltonfoodgroupplc.com)

# Consolidated income statement

	Notes	2018 52 weeks £'000	2017* 52 weeks £'000
Continuing operations			
Revenue	5	1,649,591	1,357,281
Cost of sales		(1,440,193)	(1,195,424)
Gross profit		209,398	161,857
Distribution costs		(18,283)	(11,953)
Administrative expenses		(150,030)	(116,337)
Exceptional item – acquisition costs	9	–	(2,843)
Share of profit in joint ventures		5,213	4,387
Operating profit		46,298	35,111
Finance income	10	49	66
Finance costs	10	(3,015)	(970)
Finance costs – net	10	(2,966)	(904)
Profit before income tax		43,332	34,207
Income tax expense	11	(8,626)	(7,167)
Profit for the year		34,706	27,040
Attributable to:			
Owners of the parent		32,534	24,887
Non-controlling interests		2,172	2,153
		34,706	27,040
Earnings per share attributable to owners of the parent during the year			
Basic (pence)	12	39.9	33.2
Diluted (pence)	12	39.5	32.8

\* Restated following adoption of IFRS 15, see note 2.

# Consolidated statement of comprehensive income

	2018 52 weeks £'000	2017 52 weeks £'000
Profit for the year	34,706	27,040
Other comprehensive (expense)/income		
Currency translation differences	(671)	2,134
Other comprehensive (expense)/income for the year net of tax	(671)	2,134
Total comprehensive income for the year	34,035	29,174
Total comprehensive income attributable to:		
Owners of the parent	31,788	26,801
Non-controlling interests	2,247	2,373
	34,035	29,174

The notes on pages 82 to 105 are an integral part of these consolidated financial statements.

# Consolidated balance sheet

		Group		Company	
	Notes	2018 £'000	2017* £'000	2018 £'000	2017 £'000
<b>Assets</b>					
<b>Non-current assets</b>					
Property, plant and equipment	14	158,549	80,596	–	–
Intangible assets	15	66,960	68,572	–	–
Investments	16	5,209	10,273	157,221	102,985
Trade and other receivables	19	1,227	2,455	–	–
Deferred income tax assets	24	1,653	1,624	–	–
		233,598	163,520	157,221	102,985
<b>Current assets</b>					
Inventories	18	82,190	51,458	–	–
Trade and other receivables	19	172,465	139,616	272	54,237
Current income tax assets		769	–	–	–
Other financial asset	21	7,813	7,913	–	–
Cash and cash equivalents	20	80,234	70,853	82	204
		343,471	269,840	354	54,441
<b>Total assets</b>		<b>577,069</b>	<b>433,360</b>	<b>157,575</b>	<b>157,426</b>
<b>Equity</b>					
Equity attributable to owners of the parent					
Ordinary shares	25	8,160	8,135	8,160	8,135
Share premium		63,628	62,335	63,628	62,335
Employee share schemes reserve		5,505	5,723	–	–
Foreign currency translation reserve		4,134	4,880	–	–
Retained earnings		124,923	108,358	14,768	15,937
Reverse acquisition reserve		(31,700)	(31,700)	–	–
Merger reserve		919	919	71,019	71,019
		175,569	158,650	157,575	157,426
Non-controlling interests		5,677	5,094	–	–
<b>Total equity</b>		<b>181,246</b>	<b>163,744</b>	<b>157,575</b>	<b>157,426</b>
<b>Liabilities</b>					
<b>Non-current liabilities</b>					
Borrowings	22	109,426	38,056	–	–
Deferred income tax liabilities	24	6,104	6,166	–	–
		115,530	44,222	–	–
<b>Current liabilities</b>					
Borrowings	22	5,408	15,268	–	–
Trade and other payables	23	274,885	209,586	–	–
Current income tax liabilities		–	540	–	–
		280,293	225,394	–	–
<b>Total liabilities</b>		<b>395,823</b>	<b>269,616</b>	<b>–</b>	<b>–</b>
<b>Total equity and liabilities</b>		<b>577,069</b>	<b>433,360</b>	<b>157,575</b>	<b>157,426</b>

\* Restated following adoption of IFRS 15, see note 2.

The notes on pages 82 to 105 are an integral part of these consolidated financial statements.

The financial statements on pages 78 to 105 were approved by the Board on 26 March 2019 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 £14,800,000 (2017: £13,200,000).

# Consolidated statement of changes in equity

Group	Note	Attributable to owners of the parent								Non-controlling interests £'000	Total equity £'000
		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		
Balance at 2 January 2017		7,355	7,273	5,250	2,966	96,419	(31,700)	919	88,482	6,613	95,095
Profit for the year		–	–	–	–	24,887	–	–	24,887	2,153	27,040
Other comprehensive income											
Currency translation differences		–	–	–	1,914	–	–	–	1,914	220	2,134
Total comprehensive income for the year		–	–	–	1,914	24,887	–	–	26,801	2,373	29,174
Issue of new shares		780	55,062	–	–	–	–	–	55,842	–	55,842
Adjustment in respect of employee share schemes		–	–	188	–	–	–	–	188	–	188
Tax on employee share schemes		–	–	285	–	–	–	–	285	–	285
Dividends paid	13	–	–	–	–	(12,948)	–	–	(12,948)	(3,892)	(16,840)
Total transactions with owners		780	55,062	473	–	(12,948)	–	–	43,367	(3,892)	39,475
Balance at 31 December 2017		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	13	–	–	–	–	(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
<b>Company</b>											
Balance at 2 January 2017		7,355	7,273	–	–	15,685	–	71,019	101,332		
Profit for the year		–	–	–	–	13,200	–	–	13,200		
Total comprehensive income for the year		–	–	–	–	13,200	–	–	13,200		
Issue of new shares		780	55,062	–	–	–	–	–	55,842		
Dividends paid	13	–	–	–	–	(12,948)	–	–	(12,948)		
Total transactions with owners		780	55,062	–	–	(12,948)	–	–	42,894		
Balance at 31 December 2017		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	13	–	–	–	–	(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		

The notes on pages 82 to 105 are an integral part of these consolidated financial statements.

# Consolidated cash flow statement

		Group		Company	
	Notes	2018 52 weeks £'000	2017 52 weeks £'000	2018 52 weeks £'000	2017 52 weeks £'000
<b>Cash flows from operating activities</b>					
Cash generated from operations	27	66,166	54,986	–	–
Interest paid		(3,015)	(970)	–	–
Income tax (paid)/received		(9,666)	(7,561)	–	41
Net cash generated from operating activities		53,485	46,455	–	41
<b>Cash flows from investing activities</b>					
Acquisition of subsidiary, net of cash acquired		–	(80,901)	–	–
Investment in joint ventures		–	(3,177)	–	–
Disposal of investment		–	46	–	–
Purchases of property, plant and equipment		(98,412)	(10,456)	–	–
Proceeds from sale of property, plant and equipment		308	140	–	–
Purchases of intangible assets		(930)	(1,476)	–	–
Interest received		49	66	–	–
Dividends received		–	–	14,800	13,200
Dividends received from joint venture		9,958	2,008	–	–
Net cash (used in)/generated from investing activities		(89,027)	(93,750)	14,800	13,200
<b>Cash flows from financing activities</b>					
Proceeds from borrowings		69,646	42,695	–	–
Repayments of borrowings		(8,163)	(16,560)	–	–
Repayment of inter-company loan		–	–	–	(56,139)
Issue of ordinary shares		1,047	57,465	1,047	57,465
Equity raise costs		–	(1,623)	–	(1,623)
Other financial asset		–	(7,913)	–	–
Dividends paid to owners of the parent		(15,969)	(12,948)	(15,969)	(12,948)
Dividends paid to non-controlling interests		(1,664)	(3,892)	–	–
Net cash generated from/(used in) financing activities		44,897	57,224	(14,922)	(13,245)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>9,355</b>	<b>9,929</b>	<b>(122)</b>	<b>(4)</b>
Cash and cash equivalents at beginning of the year		70,853	59,304	204	208
Exchange gains on cash and cash equivalents		26	1,620	–	–
<b>Cash and cash equivalents at end of the year</b>	20	<b>80,234</b>	<b>70,853</b>	<b>82</b>	<b>204</b>

The notes on pages 82 to 105 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 30 December 2018 (prior financial year 52 weeks to 31 December 2017).

These consolidated financial statements were approved for issue on 26 March 2019.

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 £14,800,000 (2017: £13,200,000).

## 2 Summary of significant accounting policies

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

### Basis of preparation

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

The consolidated financial statements have been prepared on the going concern basis. The reasons why the Directors consider this basis to be appropriate are set out in the Performance and financial review on page 22.

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 30 December 2018. 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 2018

IFRS 9 Financial Instruments (1 January 2018)

IFRS 15 Revenue from Contracts with Customers including Amendments to IFRS 15 (1 January 2018)

Amendments to IFRS 2 Classification and Measurement of Share Based Payment Transactions (1 January 2018)

Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (1 January 2018)

Amendments to IAS 40 Transfers of Investment Property (1 January 2018)

IFRIC 22 Foreign Currency Transactions and Advance Consideration (1 January 2018)

As a result of the introduction of IFRS 15 the Group's accounting policy for revenue and product licenses has changed leading to a small number of retrospective adjustments that are explained on page 84.

The adoption of the other accounting standard and amendments listed above has not had an impact on amounts recognised in prior periods or the current year.

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

IFRS 16 Leases (1 January 2019)

IFRIC 23 Uncertainty over Income Tax Treatments (1 January 2019)

Amendments to IFRS 9 Prepayment Features with Negative Compensation (1 January 2019)

Amendments to IAS 28 Long-Term Interests in Associates and Joint Ventures (1 January 2019)\*

Amendments to IAS 19 Plan amendment, curtailment or settlement (1 January 2019)\*

Amendments to IFRS 11 and IFRS 3 Previously held interest in a joint operation (1 January 2019)\*

Amendments to IFRS 12 Income tax consequences of payments on financial instruments classified as equity (1 January 2019)\*

Amendments to IAS 23 Borrowing costs eligible for capitalisation (1 January 2019)\*

IFRS 17 Insurance Contracts (1 January 2021)\*

Amendments to IFRS 3 Definition of a business (1 January 2020)\*

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

\*Not yet endorsed by the EU

### IFRS 16 Leases

IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The Group has set up a project team which has reviewed all of the Group's leasing arrangements over the last year in light of the new lease accounting rules in IFRS 16.

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of £100m, see note 28. Short term and low value leases will continue to be recognised on a straight line basis as expense in profit or loss. For the remaining lease commitments the Group expects to recognise right-of-use assets and lease liabilities of approximately £94m-£98m of which approximately £19m will be classified as a current liability.

The Group expects that for the lease portfolio at the date of transition the impact of the introduction of IFRS 16 on the results for the year ended 31 December 2019 will be:

- to increase depreciation by approximately £19m
- increase interest by approximately £3m
- reduce the annualised cost of operating leases charged to profit before tax by approximately £19m

Profit before tax is therefore expected to reduce by £2m-£3m in the 2019 financial year.

Operating cash flows will increase and financing cash flows decrease by approximately £19m as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities.

# Notes to the financial statements

## continued

### 2 Summary of significant accounting policies continued

The Group will apply the standard early for the 2019 accounting period that begins on 31 December 2018. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to adopting IFRS 16. Right-of-use assets for all leases will be measured at the amount of the lease liability on adoption, and adjusted by the amount of any prepaid or accrued lease payments relating to those leases and recognised in the balance sheet immediately before the date of initial application.

The Group intends to take advantage of exemptions available in IFRS 16 in relation to low value assets and short term leases.

In assessing the impact of IFRS 16 a number of estimates and judgements have been made, notably in respect of whether arrangements contain leases, the assessment of service compared to lease components within lease payments and in assessing the discount rates used to calculate the present value of lease payments.

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

#### Revenue recognition

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 benefits of the products and have full discretion over the channel and price to sell the products, and Hilton 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.

#### Impact of introduction of IFRS 15 – Prior year adjustment

Following the adoption of IFRS 15 product licenses that had previously been recognised as intangible assets have been reclassified as contract balances and are included within other receivables. These balances are amortised over the same period as previously but amortisation is now recognised as a reduction in revenue rather than an operating cost. As a result prior year adjustments has been recognised to reduce both revenue and operating costs for the year ended 31 December 2017 by £2,237,000 with product licenses of £4,691,000 being reclassified to other receivables. There is no impact on previously reported profit resulting from changes.

#### 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.

# Notes to the financial statements

## continued

### 2 Summary of significant accounting policies continued

#### Intangible assets

##### (a) Goodwill

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

##### (b) Computer software

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

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

#### 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 as 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.

##### 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.

## Leases

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

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

# Notes to the financial statements

## continued

### 2 Summary of significant accounting policies continued

#### 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.

### 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 and Australian 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. The Group seeks to manage exposure to interest rate risk through interest rate caps over the majority of its long term borrowings.

##### (iv) Sensitivity analysis

Group	Income statement £'000	2018 Equity £'000	Income statement £'000	2017 Equity £'000
Annual effect of a change in Group-wide interest rates by 0.5%	264	264	76	76
	(264)	(264)	(76)	(76)
Annual effect of a change in exchange rates to the GBP £ by 10%	2,436	235	2,157	8,555
	(1,993)	(6,943)	(1,765)	(6,999)

#### (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 £253.1m (2017: £212.5m) as stated in note 31.

#### (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 £80.2m (2017: £70.9m) 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:

	2018			2017		
	Borrowings £'000	Finance leases £'000	Trade and other payables £'000	Borrowings £'000	Finance leases £'000	Trade and other payables £'000
Less than one year	7,228	345	268,037	8,328	340	205,045
Between one and two years	16,078	345	–	6,996	340	–
Between two and five years	92,127	1,036	–	40,913	1,019	–
Over five years	–	258	–	–	679	–

# Notes to the financial statements

## continued

### 3 Financial risk management continued

#### Capital risk management

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

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

The Group monitors capital on the basis of a gearing ratio. This ratio is calculated as net debt divided by EBITDA. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown on the consolidated balance sheet) less cash and cash equivalents. EBITDA is calculated as operating profit before significant interest, tax, depreciation and amortisation. The gearing of the company was 37.9% as at the year end (2017: nil).

#### Fair value estimation

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

### 4 Critical accounting estimates and judgements

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

#### Long term supply contracts

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

#### 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.

#### 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 15. 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.

During 2018 and 2017 there were no critical other 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 eight 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 and viii) Central costs and other including Australia (Hilton Food Australia Pty Ltd and the share of profit from the joint venture). 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 and Central costs and other comprise the other reportable segments.

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

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

	Western Europe £'000	Central Europe £'000	Central costs and other £'000	2018 Total £'000	Western Europe £'000	Central Europe £'000	Central costs and other £'000	2017 Total £'000
Total segment revenue	1,584,185	100,102	9,640	1,693,927	1,303,475	91,625	–	1,395,100
Inter-segment revenue	(33,781)	(10,555)	–	(44,336)	(37,819)	–	–	(37,819)
Revenue from external customers	1,550,404	89,547	9,640	1,649,591	1,265,656	91,625	–	1,357,281
Operating profit/(loss)/segment result before exceptional items	51,456	2,307	(5,081)	48,682	41,496	1,195	(4,377)	38,314
Exceptional item – acquisition costs	–	–	–	–	–	–	(2,843)	(2,843)
Acquisition intangibles amortisation	(2,384)	–	–	(2,384)	(360)	–	–	(360)
Operating profit/(loss)/segment result after exceptional items	49,072	2,307	(5,081)	46,298	41,136	1,195	(7,220)	35,111
Finance income	4	45	–	49	16	49	1	66
Finance costs	(1,614)	(14)	(1,387)	(3,015)	(902)	–	(68)	(970)
Income tax (expense)/credit	(9,796)	(461)	1,631	(8,626)	(8,032)	(241)	1,106	(7,167)
Profit/(loss) for the year	37,666	1,877	(4,837)	34,706	32,218	1,003	(6,181)	27,040
Depreciation and amortisation	21,121	1,035	308	22,464	18,069	903	130	19,102
Additions to non-current assets	45,643	6,681	47,018	99,342	8,781	653	2,506	11,940
Segment assets	431,896	26,590	116,161	574,647	379,268	18,603	33,865	431,736
Current income tax assets				769				–
Deferred income tax assets				1,653				1,624
Total assets				577,069				433,360
Segment liabilities	248,562	17,239	123,918	389,719	208,020	9,201	45,689	262,910
Current income tax liabilities				–				540
Deferred income tax liabilities				6,104				6,166
Total liabilities				395,823				269,616

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

The Executive Directors assess the performance of each operating segment based on its operating profit before exceptional items. 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 four principal customers (comprising groups of entities known to be under common control), Tesco, Ahold, Coop Danmark and ICA Gruppen. These customers are located in the United Kingdom, Netherlands, Republic of Ireland, Sweden, Denmark and Central Europe including Poland, Czech Republic, Hungary, Slovakia, Latvia, Lithuania and Estonia.

# Notes to the financial statements

## continued

### 5 Segment information continued

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

	Revenues from external customers		Non-current assets excluding deferred tax assets	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
<b>Analysis by geographical area</b>				
United Kingdom – country of domicile	856,611	563,037	135,760	129,042
Netherlands	296,621	304,608	5,424	5,208
Sweden	206,610	223,045	11,744	13,258
Republic of Ireland	87,696	78,187	5,294	5,719
Denmark	102,866	103,728	19,589	3,969
Central Europe	89,547	84,676	9,374	3,743
Australia	9,640	–	44,760	957
	1,649,591	1,357,281	231,945	161,896
<b>Analysis by principal customer</b>				
Customer 1	901,585	646,474		
Customer 2	316,788	321,090		
Customer 3	220,684	239,016		
Customer 4	100,792	101,860		
Other	109,742	48,841		
	1,649,591	1,357,281		

### 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	2018 £'000	2017 £'000
Fees payable to the Company's auditors for the audit of the parent company and consolidated financial statements	126	132
Fees payable to the Company's auditors and its associates for other services:		
– The audit of the Company's subsidiaries pursuant to legislation	296	247
– Other services pursuant to legislation	66	49
– Services relating to taxation	11	21
– All other services including regulatory acquisition work	1	496
Total fees payable to the Company's auditors and its associates	500	945

### 7 Expenses by nature

Group	2018 £'000	2017 £'000
Changes in inventories of finished goods and goods for resale	(3,399)	(6,330)
Raw materials and consumables used	1,330,709	1,120,345
Employee benefit expense (note 8)	127,584	94,685
Depreciation and amortisation – owned assets	22,281	18,919
Depreciation and amortisation – leased assets	183	183
Repairs and maintenance expenditure on property, plant and equipment	14,123	12,643
Trade receivables – impairment	(3)	47
Transportation expenses	17,385	11,602
Operating lease rentals	9,280	8,389
Foreign exchange gains	(161)	(129)
Other expenses	90,524	66,203
<b>Total cost of sales, distribution costs and administrative expenses</b>	<b>1,608,506</b>	<b>1,326,557</b>

## 8 Employee benefit expense

Group	2018 £'000	2017 £'000
<b>Staff costs during the year</b>		
Wages and salaries	106,864	79,066
Social security costs	13,096	10,566
Share options granted to Directors and employees	2,688	1,548
Other pension costs	4,936	3,505
	127,584	94,685

Group	2018 Number	2017 Number
<b>Average number of persons employed (including Executive Directors) during the year by activity</b>		
Production	3,249	2,820
Administration	878	725
	4,127	3,545

Group	2018 £'000	2017 £'000
<b>Key management compensation (including Directors)</b>		
Salaries and short term employee benefits, including termination benefits	7,242	5,533
Post-employment benefits	339	293
Share-based payments	1,881	1,084
	9,462	6,910

Group	2018 £'000	2017 £'000
<b>Directors' emoluments</b>		
Aggregate emoluments	4,166	4,021
Company contribution to money purchase pension scheme	181	177
	4,347	4,198

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 (2017: £nil).

## 9 Exceptional item

In the prior year transaction costs of £2.8m including due diligence, legal and stamp duty were incurred in connection with the acquisition of Seachill UK Limited.

There were no exceptional items in the current year.

## 10 Finance income and costs

Group	2018 £'000	2017 £'000
<b>Finance income</b>		
Interest income on short term bank deposits	46	64
Other interest income	3	2
Finance income	49	66
<b>Finance costs</b>		
Bank borrowings	(1,869)	(563)
Finance leases	(60)	(67)
Other interest expense	(1,086)	(340)
Finance costs	(3,015)	(970)
<b>Finance costs – net</b>	(2,966)	(904)

# Notes to the financial statements

## continued

### 11 Income tax expense

Group	2018 £'000	2017 £'000
<b>Current income tax</b>		
Current tax on profits for the year	8,926	7,673
Adjustments to tax in respect of previous years	(253)	(80)
Total current tax	8,673	7,593
<b>Deferred income tax</b>		
Origination and reversal of temporary differences	(136)	(504)
Adjustments to tax in respect of previous years	89	78
Total deferred tax	(47)	(426)
<b>Income tax expense</b>	<b>8,626</b>	<b>7,167</b>

Deferred tax credit directly to equity during the year in respect of employee share schemes amounted to £20,000 (2017: credit £174,000).

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the standard rate of UK Corporation Tax of 19% (2017: 19.25%) applied to profits of the consolidated entities as follows:

	2018 £'000	2017 £'000
<b>Profit before income tax</b>	<b>43,332</b>	<b>34,207</b>
Tax calculated at the standard rate of UK Corporation Tax 19% (2017: 19.25%)	8,233	6,585
Expenses not deductible for tax purposes	737	610
Joint venture received net of tax	(990)	(838)
Adjustments to tax in respect of previous years	(164)	(2)
Profits taxed at rates other than 19% (2017: 19.25%)	804	486
Other	6	326
<b>Income tax expense</b>	<b>8,626</b>	<b>7,167</b>

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

### 12 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		Basic	2018 Diluted	Basic	2017 Diluted
Profit attributable to owners of the parent	(£'000)	32,534	32,534	24,887	24,887
Weighted average number of ordinary shares in issue	(thousands)	81,482	81,482	74,977	74,977
Adjustment for share options	(thousands)	–	981	–	820
Adjusted weighted average number of ordinary shares	(thousands)	81,482	82,463	74,977	75,797
Basic and diluted earnings per share	(pence)	39.9	39.5	33.2	32.8

### 13 Dividends

Group and Company	2018 £'000	2017 £'000
Final dividend in respect of 2017 paid 14.0p per ordinary share (2017: 12.5p)	11,400	9,248
Interim dividend in respect of 2018 paid 5.6p per ordinary share (2017: 5.0p)	4,569	3,700
Total dividends paid	15,969	12,948

The Directors propose a final dividend of 15.8p per share payable on 28 June 2019 to shareholders who are on the register at 31 May 2019. This dividend totalling £12.9m has not been recognised as a liability in these consolidated financial statements.

Dividends paid to non-controlling interests in the year totalled £1,664,000 (2017: £3,892,000).

## 14 Property, plant and equipment

Group	Land and buildings (including leasehold improvements) £'000	Plant and machinery £'000	Fixtures and fittings £'000	Motor vehicles £'000	Total £'000
<b>Cost</b>					
At 2 January 2017	39,900	192,760	12,048	354	245,062
Exchange adjustments	621	5,203	391	5	6,220
Acquisition (note 17)	7,159	10,108	246	–	17,513
Additions	756	8,536	1,061	103	10,456
Disposals	(1)	(1,217)	(51)	(117)	(1,386)
At 31 December 2017	48,435	215,390	13,695	345	277,865
<b>Accumulated depreciation</b>					
At 2 January 2017	21,734	142,556	10,224	152	174,666
Exchange adjustments	480	4,179	339	2	5,000
Charge for the year	2,731	15,042	748	82	18,603
Disposals	(1)	(847)	(42)	(110)	(1,000)
At 31 December 2017	24,944	160,930	11,269	126	197,269
<b>Net book amount</b>					
At 2 January 2017	18,166	50,204	1,824	202	70,396
At 31 December 2017	23,491	54,460	2,426	219	80,596
<b>Cost</b>					
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
<b>Accumulated depreciation</b>					
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
<b>Net book amount</b>					
At 30 December 2018	50,003	105,964	2,358	224	158,549

Land and buildings are held under short leaseholds. Details of bank borrowings secured on assets of the Group are given in note 22. 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 £52,923,000 (2017: £3,281,000).

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

	2018 £'000	2017 £'000
Cost – capitalised finance leases	3,683	3,626
Accumulated depreciation	(2,753)	(2,527)
Net book amount	930	1,099

Included in assets held under finance leases are land and buildings with a net book amount of £930,000 (2017: £1,099,000).

# Notes to the financial statements

## continued

### 15 Intangible assets

Group	Computer software £'000	Brand and customer relationships £'000	Goodwill £'000	Total £'000
<b>Cost</b>				
At 2 January 2017	3,703	–	836	4,539
Exchange adjustments	198	–	–	198
Acquisition (note 17)	–	21,907	43,957	65,864
Additions	1,484	–	–	1,484
Disposals	(28)	–	–	(28)
At 31 December 2017	5,357	21,907	44,793	72,057
<b>Accumulated amortisation</b>				
At 2 January 2017	2,821	–	–	2,821
Exchange adjustments	185	–	–	185
Charge for the year	139	360	–	499
Disposals	(20)	–	–	(20)
At 31 December 2017	3,125	360	–	3,485
<b>Net book amount</b>				
At 2 January 2017	882	–	836	1,718
At 31 December 2017	2,232	21,547	44,793	68,572
<b>Cost</b>				
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
<b>Accumulated amortisation</b>				
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
<b>Net book amount</b>				
At 30 December 2018	3,004	19,163	44,793	66,960

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

Following the adoption of IFRS 15, product licenses with a net book value of £4,691,000 at 31 December 2017 (2016: £6,866,000) have been reclassified as contract assets and included within other receivables (see note 19).

#### Goodwill Impairment Testing

Goodwill recognised by the Group relates entirely 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 10% and a growth rate of 2% has been used to extrapolate cash flows.

#### 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 one 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.

## 16 Investments

### Investments in subsidiaries

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

Company	2018 £'000	2017 £'000
At the beginning of the year	102,985	102,985
Additions	54,236	–
At the end of the year	157,221	102,985

The subsidiary undertakings of the Group are:

Subsidiary undertakings	Registered address	Country	Share class	(% Proportion of shares held by)	
				Parent	Group
Hilton Foods Asia Pacific Limited	2-8 Interchange Latham Road, Huntingdon PE29 6YE	UK	£1 Ordinary	–	100
Hilton Food Solutions Limited		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
Hilton Foods Limited	PwC Waterfront Plaza, 8 Laganbank Road, Belfast BT1 3LR Northern Ireland	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 Australia Pty Limited	267 Dohertys Road, Truganina, VIC 3029	Australia	AUD 1 Ordinary	–	100
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	2018 £'000	2017 £'000
At the beginning of the year	10,273	4,847
Acquisitions	–	3,177
Profit for the year	5,213	4,387
Dividends received	(9,958)	(2,008)
Effect of movements in foreign exchange	(319)	(130)
At the end of the year	5,209	10,273

# 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 30 December 2018. The Group's share of the net assets, income and expenses of the joint venture are detailed below:

	2018 £'000	2017 £'000
<b>Net assets</b>	<b>5,209</b>	<b>10,273</b>
Income	7,447	6,267
Taxation	(2,234)	(1,880)
<b>Profit after tax</b>	<b>5,213</b>	<b>4,387</b>

The joint ventures of the Group are:

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

### 17 Business combinations

On 6 November 2017 the Group completed the acquisition of Seachill UK Limited ('Seachill' previously Icelandic Group UK Limited) a leading producer and distributor of fresh and frozen seafood products.

The Group acquired 100% of the share capital of Seachill UK Limited for consideration of £80.8m in cash.

Fair value of assets acquired	£m
Property, plant and equipment	17.5
Brand and customer relationship intangibles	21.9
Inventories	22.9
Trade and other receivables	11.9
Cash and cash equivalents	9.9
Trade and other payables	(31.9)
Current income tax liabilities	(0.7)
Deferred tax	(4.7)
Borrowings	(10.0)
Fair value of net assets acquired	36.8
Goodwill	44.0
<b>Consideration</b>	<b>80.8</b>

The fair values above were presented as provisional in the prior year's financial statements. No adjustments have been made in the year since acquisition and the fair values are considered final.

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

The fair value of properties acquired was established from a review carried out by external qualified surveyors. The properties have been revalued at their existing use value giving consideration to the highest and best use of the properties. The values of other current assets and liabilities have been adjusted to amounts to be realised or paid respectively.

Brand intangibles have been recognised primarily relating to its Saucy Fish Co brand for which trademarks have been secured over a wide geographic area. The brand is sold by our retailer customers and is also directly marketed to consumers. Brand recognition is one of the key drivers of success in this market. Customer relationship intangibles have been recognised which relate to the supply agreements that the business has in place with its customers. The fair values of brand and customer relationship intangibles of £21.9m have been aggregated as it is considered that they are inextricably linked with their value each dependent on the other. These intangibles are being amortised over a useful economic life of 9-10 years.

Trade and other receivables acquired included trade receivables all of which are expected to be collected and therefore the fair value recognised is £11.9m.

## 18 Inventories

Group	2018 £'000	2017 £'000
Raw materials and consumables	67,641	40,309
Finished goods and goods for resale	14,549	11,149
	82,190	51,458

The cost of inventories recognised as an expense and included in cost of sales amounted to £1,327,310,000 (2017: £1,114,015,000). The Group charged £157,000 in respect of inventory write-downs (2017: £213,000). The amount charged has been included in cost of sales in the income statement.

## 19 Trade and other receivables

	Group		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Trade receivables	141,439	115,082	–	–
Less: provision for impairment of trade receivables	(349)	(402)	–	–
Trade receivables – net	141,090	114,680	–	–
Amounts owed by Group undertakings	–	–	272	54,237
Amounts owed by related parties (see note 30)	5	14	–	–
Other receivables	24,965	19,085	–	–
Prepayments	7,632	8,292	–	–
	173,692	142,071	272	54,237
Less: Non-current other receivables	(1,227)	(2,455)	–	–
	172,465	139,616	272	54,237

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

	Group		Company	
Currency	2018 £'000	2017 £'000	2018 £'000	2017 £'000
UK Pound	36,705	53,034	272	54,237
Euro	60,276	51,691	–	–
Swedish Krona	14,767	19,280	–	–
Danish Krone	25,045	14,766	–	–
Polish Zloty	6,511	2,628	–	–
Australian Dollar	30,325	672	–	–
Other	63	–	–	–
	173,692	142,071	272	54,237

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 £349,000 (2017: £402,000).

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.

Due to the nature of the receivables and contract assets held by the Group, there has been no material difference in the provision recognised under IFRS 9 when compared to the Group's previous policy under IAS 39.

# Notes to the financial statements

## continued

### 19 Trade and other receivables continued

Following the adoption of IFRS 15, other receivables at 31 December 2017 have been restated to include £4,691,000 (2016: £6,866,000) of contract assets that had previously been recognised as product licenses within intangible assets. Of these amounts £2,455,000 (2016: £4,650,000) have been recognised as non-current other receivables.

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

Group	2018 £'000	2017 £'000
At the beginning of the year	402	183
Provision for receivables impairment	45	330
Receivables written off during the year as uncollectable	(98)	(122)
Exchange differences	–	11
At the end of year	349	402

### 20 Cash and cash equivalents

	Group		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Cash at bank and on hand	80,234	70,853	82	204

### 21 Other financial asset

	Group		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Bank treasury deposit maturing after three months	7,813	7,913	–	–

### 22 Borrowings

Group	2018 £'000	2017 £'000
<b>Current</b>		
Bank borrowings	5,118	14,989
Finance lease liabilities	290	279
	5,408	15,268
<b>Non-current</b>		
Bank borrowings	107,923	36,206
Finance lease liabilities	1,503	1,850
	109,426	38,056
<b>Total borrowings</b>	<b>114,834</b>	<b>53,324</b>

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

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

Currency	2018 £'000	2017 £'000
UK Pound	51,377	51,195
Euro	25,271	2,129
Australian Dollar	38,186	–
	114,834	53,324

Bank borrowings are repayable in quarterly instalments by 2019 – 2022 with interest charged at LIBOR 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 £201.0m (2017: £160m) with the loan facilities expiring in 2022.

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

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

Group	Minimum lease payments		Present value	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
No later than one year	345	340	290	279
Later than one year and no later than five years	1,380	1,359	1,252	1,198
Later than five years	259	679	251	652
	1,984	2,378	1,793	2,129
Future finance charges on finance leases	(191)	(249)	–	–
Present value of finance lease liabilities	1,793	2,129	1,793	2,129

Lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default. The fair value of the Group's finance lease liabilities is £1,984,000 (2017: £2,378,000). The fair values are based on cash flows discounted using the European Central Bank benchmark main refinancing operations fixed interest rate of 0% (2017: 0%).

Group net debt of £26,787,000 (2017: net cash of £25,442,000) comprises borrowings, noted above, of £114,834,000 (2017: £53,324,000) cash and cash equivalents of £80,234,000 (2017: £70,853,000) and other financial assets of £7,813,000 (2017: £7,913,000).

### 23 Trade and other payables

	Group		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Trade payables	228,659	177,263	–	–
Social security and other taxes	6,848	4,541	–	–
Accruals and deferred income	39,378	27,782	–	–
	274,885	209,586	–	–

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	Other timing differences £'000	Total £'000
At 2 January 2017	(820)	–	373	(447)
Exchange differences	8	–	–	8
Acquisition (note 17)	(541)	(4,162)	–	(4,703)
Income statement credit	233	68	125	426
Adjustment in respect of employee share schemes	–	–	174	174
At 31 December 2017	(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)

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

Group	2018 £'000	2017 £'000
Deferred tax liabilities	(6,104)	(6,166)
Deferred tax assets	1,653	1,624
	(4,451)	(4,542)

Other timing differences principally relate to share-based payments. The deferred income tax liability above includes £439,000 (2017: £450,000) 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)	2018 £'000	Group 2017 £'000	2018 £'000	Company Total £'000
<b>Issued and fully paid ordinary shares of 10p each</b>					
At 1 January 2018/2 January 2017	81,348	8,135	7,355	8,135	7,355
Issue of new shares relating to employee incentive schemes	250	25	45	25	45
Issue of new shares relating to equity placing	–	–	735	–	735
<b>At 30 December 2018/31 December 2017</b>	<b>81,598</b>	<b>8,160</b>	<b>8,135</b>	<b>8,160</b>	<b>8,135</b>

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 compound growth target. Awards will vest on a sliding scale with 10%-25% of the maximum award applied at the minimum EPS growth target of 5%-8% per year with the full award vesting where EPS growth is at least 10%-18% per year. The options have a contractual option term of 10 years. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

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

	Executive share option		Sharesave		Long Term Incentive	
	Options ('000)	Exercise price (pence)	Options ('000)	Exercise price (pence)	Options ('000)	Exercise price (pence)
At 2 January 2017	207	242.02	664	470.90	1,550	–
Granted	–	–	282	645.50	428	–
Exercised	(207)	242.02	(239)	461.40	(171)	–
Lapsed	–	–	(48)	531.10	(248)	–
At 31 December 2017	–	–	659	544.80	1,559	–
Granted	–	–	355	830.00	407	–
Exercised	–	–	(250)	420.11	(324)	–
Lapsed	–	–	(65)	667.29	(193)	–
<b>At 30 December 2018</b>	<b>–</b>	<b>–</b>	<b>699</b>	<b>722.59</b>	<b>1,449</b>	<b>–</b>

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	
				2018 ('000)	2017 ('000)
December 2018	Sharesave	Exercisable	420.00	3	257
December 2019	Sharesave	Not exercisable	496.25	123	135
December 2020	Sharesave	Not exercisable	645.50	241	267
December 2021	Sharesave	Not exercisable	830.00	332	–
April 2024	Long Term Incentive Plan	Exercisable	nil cost	66	107
April 2025	Long Term Incentive Plan	Exercisable	nil cost	113	544
April 2026	Long Term Incentive Plan	Not exercisable	nil cost	469	484
April 2026	Long Term Incentive Plan	Not exercisable	nil cost	408	424
May/July 2027	Long Term Incentive Plan	Not exercisable	nil cost	393	–

The fair value of options granted during 2018 determined using the Black-Scholes valuation model ranged from 79p to 637p per option. The significant inputs into the model were the exercise price shown above, volatility of 27% based on a comparison of similar listed companies, dividend yield of 3%, an expected option life of four years, and an annual risk-free interest rate of 0.34%. 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	2018 £'000	2017 £'000
Profit before income tax	43,332	34,207
Finance costs – net	2,966	904
Operating profit	46,298	35,111
Adjustments for non-cash items:		
Share of post tax profits of joint venture	(5,213)	(4,387)
Depreciation of property, plant and equipment	19,921	18,603
Amortisation of intangible assets	2,543	499
Amortisation of contract assets – charged to revenue	2,068	2,237
(Gain)/loss on disposal of non-current assets	(81)	209
Adjustment in respect of employee share schemes	(238)	188
Changes in working capital:		
Inventories	(30,742)	(3,538)
Trade and other receivables	(34,006)	(928)
Prepaid expenses	660	(2,244)
Trade and other payables	53,362	931
Accrued expenses	11,594	8,305
Cash generated from operations	66,166	54,986

The parent company has no operating cash flows.

# Notes to the financial statements

## continued

### 28 Commitments

#### (a) Capital commitments

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

	Group		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Property, plant and equipment	28,785	2,120	–	–

#### (b) Operating lease commitments

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

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

	Land and buildings		Plant and equipment	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
No later than one year	8,818	8,062	11,373	2,842
Later than one year and no later than five years	23,114	13,939	8,564	3,317
Later than five years expiring 2024 to 2029	48,237	14,270	–	–
	80,169	36,271	19,937	6,159

### 29 Events after the reporting period

On 31 January 2019 the Group acquired 50% of the share capital of Dalco Food B.V., a leading vegetarian product manufacturer based in the Netherlands. The agreement includes an option for the Group to acquire the remaining 50% of Dalco's shares in 2024.

On 28 February 2019 the Group acquired 100% of the share capital of HFR Food Solutions Limited, a sous vide manufacturer based in the UK. Given the proximity of the acquisition date to the date of issue of these financial statements management are yet to conclude an assessment of the fair value of the assets and liabilities acquired. The acquisition 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 HFR Food Solutions Limited and 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 HFR Food Solutions Limited.

### 30 Related party transactions and ultimate controlling party

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

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

Group	2018 £'000	2017 £'000
Woolworths Meat Co. Pty Limited – recharge of joint venture costs	–	329
Sohi Meat Solutions Distribuicao de Carnes SA – fee for services	3,236	4,349
Sohi Meat Solutions Distribuicao de Carnes SA – recharge of joint venture costs	790	209

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

Group	Owed from related parties	
	2018 £'000	2017 £'000
Woolworths Meat Co. Pty Limited	5	14
Foods Connected Limited	170	170
Sohi Meat Solutions Distribuicao de Carnes SA	3,940	4,515

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

Company	2018 £'000	2017 £'000
Hilton Foods Limited – dividend received	14,800	13,200
Hilton Foods Limited – acquisition funding	–	54,237

At the year end £272,000 was owed by Hilton Foods Limited (2017: £54,237,000) and Enil (2017: £nil) was owed by Hilton Foods UK Limited.

Details of key management compensation are given in note 8.

### 31 Financial instruments by category

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

Group	Loans and receivables	
	2018 £'000	2017 £'000
<b>Assets as per balance sheet</b>		
Trade and other receivables	166,060	133,779
Other financial asset	7,813	7,913
Cash and cash equivalents	80,234	70,853
	<b>254,107</b>	<b>212,545</b>
Group	Other financial liabilities at amortised cost	
	2018 £'000	2017 £'000
<b>Liabilities as per balance sheet</b>		
Trade and other payables	268,037	205,045
Borrowings	114,834	53,324
	<b>382,871</b>	<b>258,369</b>

In addition to the above, amounts owed to the Company by Group undertakings were £272,000 (2017: £54,237,000) are classified as 'loans and receivables'.

# Registered office and advisors

## Registered office

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## Advisors

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### **Numis Securities Limited**

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## Legal advisor

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## Independent auditors

### **PricewaterhouseCoopers LLP**

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