30th March 2017

Hilton Food Group plc

Further strategic expansion

Highlights

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

Financial highlights

	2016 52 weeks to 1 January 2017	**2015** 53 weeks to 3 January 2016	**Change**	Unaudited: 2015 on a 52 week basis	Unaudited: Change on a comparable 52 week constant currency basis
Volume * (tonnes)	**275,213**	**256,218**	**7.4%**	252,775	8.9%
Revenue	**£1,234.5m**	**£1,094.8m**	**12.8%**	£1,077.7m	7.2%
Operating profit	**£34.3m**	**£29.0m**	**18.4%**	£28.4m	11.7%
Basic earnings per share	**33.7p**	**27.5p**	**22.5%**	26.9p	15.4%
Cash inflow before minorities, dividends and financing	**£26.7m**	**£31.7m**	**-15.7%**		
Net cash	**£32.3m**	**£12.7m**			
Dividends paid and proposed in respect of the year	**17.1p**	**14.6p**	**17.1%**		

* Volume includes 50% share of the Australian joint venture activity

Strategic highlights

- Agreement with Woolworths to build and operate a new production facility in Queensland, Australia due to open in 2020

- Joint venture agreement signed since the year end with Sonae Modelo Continente, Portugal's leading food retailer following on from co-operation agreement

- Successful range expansion into fresh pizza production in Sweden and Central Europe

- Establishment of successful UK meat trading business

Operating highlights

- Higher volumes with a good performance in the UK and encouraging growth in our Irish business

- Ramp up of the facility in Melbourne, Australia

- Turnover growth up 7.2% on a like-for-like 52 week constant currency basis enhanced by favourable currency translation

- Strong growth in underlying profitability with operating profit up 11.7% on a like-for-like 52 week constant currency basis

- Continued strong cash generation and an ungeared balance sheet

Commenting on the results Chief Executive Robert Watson OBE said:

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

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This announcement contains inside information.

Chairman’s introduction

Strategic progress

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

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

Group performance

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

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

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

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

Dividend policy

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

Our Board and governance

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

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

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

Annual General Meeting

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

Colin Smith OBE
Non-Executive Chairman
29 March 2017

Chief Executive's summary

Strategic objectives

Our strategy continues to be to support our customers' brands and their development in local markets, whilst achieving attractive and sustainable rates of growth in value for our shareholders. This straightforward approach has generated growth over an extended period of time and, with a strong reputation, well invested modern facilities and a robust balance sheet, the Group remains well positioned to achieve continuing progress.

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

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

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

Business model

Our business model is the means by which we deliver on our strategic objectives. The Hilton business model is proven and sustainable, whilst being relatively simple and straightforward. We operate large scale, extensively automated and robotised meat processing and packing facilities for major international multiple retailers on a dedicated basis. The one exception is in Central Europe, where our facility in Poland supplies more multiple retailers in order to achieve critical mass in terms of volumes supplied and the consequent ability to achieve competitive unit packing costs.

Raw material meat is sourced, in conjunction with our retail partners, from local sources and a wide international base of proven suppliers. It is then processed, packed and delivered to the retailers' distribution centres or stores. Our plants are highly automated and use advanced robotics for the storage of raw materials and finished products. Developing robotics technology has been extended in recent years both in the production environment and to the sorting of finished products by retailer store order, achieving material supply chain efficiencies for our customers.

We seek to keep ourselves at the forefront of the meat packing industry, which helps ensure our continued competitiveness. We constantly look to drive efficiencies, always maintaining a pipeline of clear identifiable cost reduction initiatives and an open minded approach designed to continually challenge the status quo. We consider our modern, very well invested facilities to be a key factor in keeping unit packing costs as low as possible. Over the past thirteen years we have invested continuously across all areas of our business, including the sourcing of raw materials, the design of packaging materials, increased efficiency in processing and storage solutions and updating our IT infrastructure. Following substantial investment in the UK in 2014, we continue to invest, working in partnership with our customer Tesco PLC. This has subsequently delivered double-digit growth and market-leading efficiencies, as well as product and packaging innovation all to the highest quality standards. Group capital expenditure over the period 2004-2016 has totalled £226m.

We have facilities in six countries in Europe each run by a local management team enhanced by specialist central leadership, expertise, advice and support. These businesses operate under the terms of five to ten year long term supply agreements with our retail partners, either on a cost plus, packing rate or volume based reward basis. These contractual arrangements, combined with our customer dedication, serve to maximise achievable volume throughput whilst minimising unit packing costs thereby delivering value to our customers. In Australia, our joint venture company receives a volume related management fee in respect of the facilities it operates on behalf of Woolworths.

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

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

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

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

Geographical spread

The Group's rapid expansion has been based on its established track record, together with its growing international reputation and experience and the recognised success of the close partnerships it has forged and maintained with successful retail partners. We are an international business in fourteen European countries and Australia with production facilities in the seven countries listed below including the dates operations commenced.

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

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

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

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

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

Currency translation

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

Culture and people

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

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

The Group currently employs 2,898 employees in six European countries and Australia. Our business model is largely decentralised, with capable, largely self-sufficient management teams running our businesses in each local country. We consider this devolved structure to be a critical success factor, achieving close working relationships with our customers, who benefit from personal, dedicated, flexible and rapid local support.

The Board fully understands and appreciates just how much our progress relies on the effort, personal commitment, enthusiasm, enterprise and initiative of our employees. I would like to take this opportunity, on behalf of the Board, to personally thank all of them both for their dedicated efforts during 2016 and their continuing commitment to the Group's ongoing growth and development.

Performance overview

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

Western Europe

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

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

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

Central Europe

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

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

Central costs and other

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

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

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

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

Past and future trends

Over recent decades as major retail chains have progressively gained a greater share of the grocery markets in most countries, they have increasingly turned to large scale, centralised meat packing solutions capable of producing private label packed meat products more safely and cost effectively. In doing so, they have rationalised their supply base, achieving lower costs with higher food safety, food integrity, traceability and quality standards. This has allowed supermarket groups to focus on their core business and maximise their return on available retail space whilst addressing consumers' continuing requirement for quality and value.

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

Within the wider retail market consumer patterns are continuing to change with increased internet based ordering and a growth in the number of "click and collect" facilities. Following pressures on consumer expenditure over a number of years, there has been increased use by cost conscious consumers of local convenience stores and discount outlets to shop more frequently for a reduced overall basket cost per visit and at a wider range of retail outlets. These developments which appear to be structural rather than cyclical reinforce the overall trend towards retail packed meat, as this is the meat offering in all these growth areas.

Outlook and current trading

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

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

Robert Watson OBE
Chief Executive
29 March 2017

Performance and financial review

Group performance

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

Basis of preparation

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

2016 Financial performance

Revenue

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

Operating profit and margin

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

Net finance costs

Net finance costs of £1.1m matched the previous year's level (2015: £1.1m) with interest rates remaining at historically low levels, reflecting continuing low LIBOR and other interbank rates, which determine the interest rates on the Group's principal borrowings. Interest cover in 2016 remained high increasing to 31 times (2015: 28 times).

Taxation

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

Net income

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

Earnings per share

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

Earnings before interest, taxation, depreciation and amortisation

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

Free cash flow

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

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

Dividends

The Board aims to maintain a dividend policy that provides a dividend level that grows broadly in line with the underlying earnings of the Group and has recommended a final dividend of 12.5p per ordinary share in respect of 2016. This, together with the interim dividend of 4.6p per ordinary share paid in December 2016, represents a 17.1% increase in the full year dividend, as compared with last year. The final dividend, if approved by shareholders, will be paid on 30 June 2017 to shareholders on the register on 2 June 2017 and the shares will be ex dividend on 1 June 2017.

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 below:

	2016 (52 weeks)	**2015 (53 weeks)**	**Definition, method of calculation and analysis**
Financial KPIs			
Revenue growth (%)	12.8%	(0.4%)	Year on year revenue growth expressed as a percentage. The 2016 increase reflected volume growth, mix shift and favourable exchange translation rate movements.
Operating profit margin (%)	2.8%	2.6%	Operating profit expressed as a percentage of turnover. The increase in 2016 primarily reflected higher Australia volumes.
Operating profit margin (pence per kg)	12.5	11.3	Operating profit per kilogram sold in pence. The increase in 2016 primarily relates to favourable exchange translation rate movements.
Earnings before interest, taxation, depreciation and amortisation (EBITDA) (£m)	54.0	48.4	Operating profit before depreciation and amortisation. The increase reflected higher underlying operating profits, together with higher depreciation charges.
Free cash flow (£m)	26.7	31.7	Cash inflow before minorities, dividends and financing. Free cash flow continued to be strong but was lower than last year due to adverse working capital movements and higher tax payments.
Gearing ratio (%)	n/a	n/a	Year end net debt as a percentage of EBITDA. The Group was ungeared at the end of 2015 and 2016 being in a net cash position.
Non-financial KPIs			
Growth in volume of packed meat sales (%)	7.4%	5.5%	Year on year volume growth, expressed as a percentage. Volume growth was seen principally in the UK, Ireland and Australia.
Employee and labour agency costs (pence per kg)	38.2	36.2	The increase reflects exchange translation rate movements.
Customer service level (%)	98.6%	99.2%	Packs of meat delivered as a % of the orders placed. Little year on year change, with high service levels being maintained throughout the year.

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

Treasury management

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

Foreign exchange rate movements and country specific risks

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

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

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

Interest rate fluctuation risk

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

Customer credit and pricing risks

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

Liquidity risk

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

Going concern statement

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

The Group’s bank borrowings are detailed in the financial statements and the principal banking facilities, which support the Group’s existing and contracted new business, are committed. The Group is in full compliance with all its banking covenants. Future geographical expansion which is not yet contracted, and which is not built into our internal budgets and forecasts, may require additional or extended banking facilities and such future geographical expansion will depend on our ability to negotiate appropriate additional or extended facilities, as and when they are required.

The Group’s internal budgets and forward forecasts, which incorporate all reasonably foreseeable changes in trading performance, are regularly reviewed in detail by the Board and show that it will be able to operate within its current banking facilities, taking into account available cash balances, for the foreseeable future.

Viability statement

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

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

Forward looking statements

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

Nigel Majewski
Chief Financial Officer
29 March 2017

Risk management and principal risks

Risks and risk management

In accordance with provision C.2.1 of the 2014 revision of the UK Corporate Governance Code the Directors confirm that they have carried out a robust assessment of the principal risks facing the Group, including those which could threaten its business model, future performance, solvency or liquidity. As a leading food processor in a fast moving environment it is critical that the Group identifies, assesses and prioritises its risks. This, together with the adoption of appropriate mitigation actions, enables us to monitor, minimise and control both the probability and potential impact of these risks.

How we manage risk

Responsibility for risk management across the Group, including the appropriate identification of risks and the effective application of actions designed to mitigate those risks, resides with the Board which believes that a successful risk management framework carefully balances risk and reward, and applies reasoned judgement and consideration of potential likelihood and impact in determining its principal risks. The Group takes a proactive approach to risk management with well-developed structures and a range of processes for identifying, assessing, prioritising and mitigating its key risks, as the delivery of our strategy depends on our ability to make sound risk informed decisions.

Risk management process and risk appetite

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

Not all the risks listed are within the Group's control and others may be unknown or currently considered immaterial, but could turn out to be material in the future. These risks, together with our risk mitigation strategies, should be considered in the context of the Group's risk management and internal control framework, details of which are set out in the Corporate governance statement. It must be recognised that systems of internal control are designed to manage rather than completely eliminate any identified risks.

The most significant risks the Group faces

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

Description of risk	The Group is dependent on a small number of customers who can exercise significant buying power and influence when it comes to contractual renewal terms at 5 to 10 year intervals.
Its potential impact	The Group has a relatively narrow, but expanding, customer base, with sales to subsidiary or associated companies of the Tesco and Ahold groups still comprising the larger part of Hilton's revenue. The larger retail chains have over many years increased their market share of meat products in many countries, as customers continue to move away from high street butchers towards one stop convenience shopping in supermarkets. This has increased the buying power of the Group's customers which in turn increases their negotiating power with the Group, which could enable them to seek better terms over time.

Risk mitigation measures and strategies adopted	The Group is progressively widening its customer base and its maintained high level of investment in state of the art facilities, which together with management's continuous focus on reducing costs, allow it to operate very efficiently at very high throughputs and price its products competitively. Hilton operates a decentralised, entrepreneurial business structure, which enables it to work very closely and flexibly with its retail partners in each country, in order to achieve high service levels in terms of orders delivered, delivery times, compliance with product specifications and accuracy of documentation, all backed by an uncompromising focus on food safety, product integrity and traceability assurance. Hilton has long term supply agreements in place with its major customers, with pricing either on a cost plus or agreed packing rate basis.

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

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

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

Description of risk	The Group's business is dependent on maintaining a wide and flexible global meat supply base operating at standards that can continuously achieve the specifications set by Hilton and its customers.

Its potential impact	The Group is reliant on its suppliers to provide sufficient volume of products, to the agreed specifications, in the very short lead times required by its customers, with efficient supply chain management being a key business attribute. The Group sources certain of its meat requirements globally. Tariffs, quotas or trade barriers imposed by countries where the Group procures meat, or which they may impose in the future, together with the progress of World Trade Organisation talks and other global trade developments, could materially affect the Group's international procurement ability but has not done so in recent years.
Risk mitigation measures and strategies adopted	The Group maintains a flexible global meat supply base, which is progressively widening as it expands and is continuously audited to ensure standards are maintained, so as to have in place a wide range of options should supply disruptions occur.

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

Description of risk	Significant incidents such as fire, flood or interruption of supply of key utilities could impact the Group's business continuity.
Its potential impact	Such incidents could result in systems or manufacturing process stoppages with consequent disruption and loss of efficiency which could impact the Group's sales.
Risk mitigation measures and strategies adopted	The Group has robust business continuity plans in place including sister site support protocols enabling other sites to step in with manufacturing and distribution of key product lines where necessary. Continuity management systems and plans are suitably maintained and adequately tested including building risk assessments and emergency power solutions. There are appropriate insurance arrangements in place to mitigate against any associated financial loss.

Description of risk	The Group's IT systems could be subject to cyber attacks including fraudulent external email activity. These kinds of attacks are generally increasing in frequency and sophistication.
Its potential impact	The Group's operations are underpinned by a variety of IT systems. Loss or disruption to those IT systems could impact the Group's ability to effectively operate its facilities and on its sales and reputation.
Risk mitigation measures and strategies adopted	The Group has a robust IT control framework which is tested frequently by internal staff and by specialist external bodies. There is internal training and resources available with emphasis on prevention, user awareness and recovery. Financial controls mitigate the risk of fraudulent payments being processed.

Note: References in this preliminary announcement to the Strategic report, the Corporate and social responsibility report, the Directors' report and the Corporate Governance statement are to reports which will be available in the Company's full published accounts.

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

Each of the Directors whose names and functions are set out below confirms that to the best of their knowledge and belief:

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

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

This responsibility statement was approved by the Board of Directors on 29 March 2017 and is signed on its behalf by:

Directors

R Watson OBE	Chief Executive
N Majewski	Chief Financial Officer

Consolidated income statement

	Notes	2016 52 weeks £'000	2015 53 weeks £'000
Continuing operations			
Revenue	3	**1,234,495**	1,094,822
Cost of sales		**(1,083,667)**	(957,067)
Gross profit		**150,828**	137,755
Distribution costs		**(11,089)**	(10,091)
Administrative expenses		**(108,471)**	(99,887)
Share of profit in joint venture		**3,056**	1,222
Operating profit		**34,324**	28,999
Finance income	4	**87**	97
Finance costs	4	**(1,202)**	(1,148)
Finance costs – net	4	**(1,115)**	(1,051)
Profit before income tax		**33,209**	27,948
Income tax expense	5	**(6,553)**	(6,489)
Profit for the year		**26,656**	21,459
Attributable to:			
Owners of the parent		**24,649**	20,017
Non-controlling interests		**2,007**	1,442
		26,656	21,459
Earnings per share attributable to owners of the parent during the year			
Basic (pence)	6	**33.7**	27.5
Diluted (pence)	6	**33.2**	27.2

Consolidated statement of comprehensive income

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

The notes are an integral part of these consolidated financial statements.

Consolidated balance sheet

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

The notes are an integral part of these consolidated financial statements.

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

R. Watson OBE
Director

N. Majewski
Director

Hilton Food Group plc – Registered number: 06165540

Consolidated statement of changes in equity

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

The notes are an integral part of these consolidated financial statements.

Consolidated cash flow statement

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

The notes are an integral part of these consolidated financial statements.

Notes to the financial statements

1 General information

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

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

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

The financial year represents the 52 weeks to 1 January 2017 (prior financial year 53 weeks to 3 January 2016).

This preliminary announcement was approved for issue on 29 March 2017.

2 Summary of significant accounting policies

The accounting policies are consistent with those of the annual financial statements for the year ended 3 January 2016.

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.

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 a note.

The financial information included in this preliminary announcement does not constitute statutory accounts of the Group for the years ended 1 January 2017 and 3 January 2016 but is derived from those accounts. Statutory accounts for 2015 have been delivered to the Registrar of Companies and those for 2016 will be delivered following the Company's Annual General Meeting. The auditors have reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

3 Segment information

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

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

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

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

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

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

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

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

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

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

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

	Revenues from external customers		Non-current assets excluding deferred tax assets	
	2016 £'000	2015 £'000	**2016 £'000**	2015 £'000
Analysis by geographical area				
United Kingdom – country of domicile	**488,106**	441,673	**43,020**	39,784
Netherlands	**294,308**	257,398	**8,183**	9,445
Sweden	**208,974**	182,621	**15,715**	13,752
Republic of Ireland	**64,452**	55,880	**5,666**	3,999
Denmark	**91,637**	83,174	**7,594**	9,757
Central Europe	**87,018**	74,076	**3,649**	2,962
	1,234,495	1,094,822	**83,827**	79,699

Analysis by principal customer		
Customer 1	**570,062**	513,401
Customer 2	**317,740**	284,560
Customer 3	**225,657**	197,608
Customer 4	**89,936**	81,634
Other	**31,100**	17,619
	1,234,495	1,094,822

4 Finance income and costs

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

5 Income tax expense

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

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

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the standard rate of UK Corporation Tax of 20% (2015: 20.25%) applied to profits of the consolidated entities as follows:

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

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

6 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**	**2016 Diluted**	Basic	2015 Diluted
Profit attributable to owners of the parent	(£'000)	**24,649**	**24,649**	20,017	20,017
Weighted average number of ordinary shares in issue	(thousands)	**73,247**	**73,247**	72,748	72,748
Adjustment for share options	(thousands)	**-**	**945**	-	970
Adjusted weighted average number of ordinary shares	(thousands)	**73,247**	**74,192**	72,748	73,718
Basic and diluted earnings per share	(pence)	**33.7**	**33.2**	27.5	27.2

7 Dividends

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

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

8 Property, plant and equipment

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

Land and buildings are held under short leaseholds. Details of bank borrowings secured on assets of the Group are given in note 10. Depreciation charges are included within administrative expenses in the income statement.

The cost and net book amount of property plant and equipment in the course of its construction included above comprise plant and machinery £1,980,000 (2015: £1,654,000).

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

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

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

9 Intangible assets

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

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

10 Borrowings

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

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

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

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

Borrowings are repayable in quarterly instalments by 2019. Interest on borrowings in Sterling is charged at LIBOR plus 1.6% subject to interest rate caps over £12m of borrowings where LIBOR is capped at 2.5%. Interest on borrowings in Swedish Krona is charged at STIBOR plus 1.6% subject to interest rate caps over SEK 75m of borrowings where STIBOR is capped at 3%.

Bank borrowings totalling £24,667,000 (2015: £37,990,000) are secured by fixed and floating charges over the assets of the individual Group borrowers and through joint and several guarantees from each active Group undertaking.

The Group has undrawn overdraft and loan borrowing facilities of £99.2m (2015: £28.3m) with the loan facilities expiring in 2022.

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

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

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

Lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default. The fair value of the Group's finance lease liabilities is £2,956,000 (2015: £2,843,000). The fair values are based on cash flows discounted using the European Central Bank benchmark main refinancing operations fixed interest rate of 0% (2015: 0.05%).

11 Cash generated from operations

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

The parent company has no operating cash flows.

12 Related party transactions and ultimate controlling party

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

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

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

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

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

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

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

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

Details of key management compensation are given in a note.