27 March 2019

Hilton Food Group plc

Building a significantly bigger and more diversified business

Hilton Food Group plc, the leading specialist international food packing business, today announces its preliminary results for the 52 weeks ended 30 December 2018.

Financial highlights

	2018	2017	Change	
	52 weeks to 30 December 2018	52 weeks to 31 December 2017	Reported	Constant currency
Volume [1] (tonnes)	**344,784**	**303,811**	**13.5%**	
Revenue	**£1,649.6m**	**£1,357.3m [3]**	**21.5%**	**21.9%**
Adjusted results [2]				
Adjusted operating profit	**£48.7m**	**£38.3m**	**27.1%**	**28.2%**
Adjusted profit before tax	**£45.7m**	**£37.4m**	**22.2%**	**23.3%**
Adjusted basic earnings per share	**42.3p**	**37.4p**	**13.1%**	**14.3%**
IFRS results				
Operating profit	**£46.3m**	**£35.1m**	**31.9%**	
Profit before tax	**£43.3m**	**£34.2m**	**26.7%**	
Basic earnings per share	**39.9p**	**33.2p**	**20.2%**	
Cash flows from operating activities	**£53.5m**	**£46.5m**	**15.1%**	
Net (debt)/cash	**£(26.8)m**	**£25.4m**		
Dividends paid and proposed in respect of the year	**21.4p**	**19.0p**	**12.6%**	

Notes
1. Volume includes 50% share of the Australian and Portuguese joint venture activities
2. Adjustments comprise acquisition intangibles amortisation of £2.4m (2017: £0.4m) and exceptional acquisition costs £nil (2017: £2.8m) in connection with the 2017 Seachill acquisition
3. 2017 Revenue reduced by £2.2m in line with the new IFRS 15 accounting standard

Strategic highlights

- Seachill successfully integrated into the Group and trading well with new business wins to expand further

- Commencement of Hilton production in Australia from satellite facility in Brisbane; new factory expected to open ahead of schedule in Q3 2019

- Full operational control of Australian joint venture facilities from July 2018 with 15 year long term supply agreements in place

- Joint venture agreement to invest in leading Dutch vegetarian product manufacturer Dalco completed since the year end following competition authority clearance

- Launch of fresh convenience foods in Central Europe

Operating highlights

- Volume growth of 13.5% driven by a full year contribution from Seachill plus Australia

- Turnover up 21.5% and 21.9% on a constant currency basis

- Adjusted operating profit growth of 27.1% and 28.2% on a constant currency basis with IFRS growth of 31.9%

- Strong operating cash generation and significant £99m investment in facilities to support future growth

Commenting on the results Executive Chairman Robert Watson OBE said:

"In 2018, we continued to deliver on our strategic objectives to build a significantly bigger and more diversified business. Seachill's integration together with the new shellfish business win has driven volume and profit growth further supported in Australia through the start of production and transfer of operational control in the joint venture facilities. We are adding another protein to our offering through an agreement to invest in leading vegetarian producer Dalco and continue to explore further opportunities in both domestic and overseas markets."

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This announcement contains inside information.

Chairman’s introduction

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

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.

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.

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%).

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.

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

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.

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:

	2018 (52 weeks)	**2017 (52 weeks)**	**Definition, method of calculation and analysis**
Financial KPIs			
Revenue growth (%)	21.5%	10.1%	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.
Adjusted operating profit margin (%)	3.0%	2.8%	Adjusted operating profit expressed as a percentage of turnover. The operating profit margin % in 2018 was boosted by contributions from Seachill and Portugal
Adjusted operating profit margin (pence per kg)	14.1	12.5	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.
Earnings before interest, taxation, depreciation and amortisation (EBITDA) (£m)	70.7	56.7	Operating profit before depreciation and amortisation. The increase reflected higher operating profits less the 2017 exceptional item, together with higher depreciation charges.
Free cash flow (£m)	(35.5)	(47.3)	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.
Gearing ratio (%)	37.9%	n/a	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%	10.4%	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	38.7	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%	98.7%	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.

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 crystalise. 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 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 15 year intervals.
Its potential impact	The Group has a relatively narrow, but expanding, customer base, with sales to subsidiary or associated companies of the Tesco and Ahold groups still comprising the larger part of Hilton's revenue. The larger retail chains have over many years increased their market share of meat products in many countries, as customers continue to move away from high street butchers towards one stop convenience shopping in supermarkets. This has increased the buying power of the Group's customers which in turn increases their negotiating power with the Group, which could enable them to seek better terms over time.
Risk mitigation measures and strategies adopted	The Group is progressively widening its customer base and has maintained 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 food sales.
Its potential impact	The Group's products predominantly carry the brand labels of the customer to whom packed food is supplied and it is accordingly dependent on its customers' success in maintaining or improving consumer perception of their own brand names and packed food offerings.
Risk mitigation measures and strategies adopted	The Group plays a very proactive role in enhancing its customers' brand values, through providing high quality, competitively priced products, high service levels, continuing product and packaging innovation and category management support. It recognises that quality and traceability assurance are integral to its customers' brands and works closely with its customers to ensure rigorous quality assurance standards are met. It is continuously measured by its customers across a very wide range of parameters, including delivery time, product specification, product traceability and accuracy of documentation and targets demanding service levels across all these parameters. The Group works closely with its customers to identify continuing improvement opportunities across the supply chain, including enhancing product presentation, extending shelf life and reducing wastage at every stage in the supply chain.

Description of risk	The progress of the Group's business is 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.
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.

Description of risk	Under growth conditions the Group's business is reliant on a small number of key personnel and its ability to manage growth and change successfully. This risk has increased with the Group's continued expansion with new customers and into new territories with potentially greater reliance on stretched skilled factory operatives resource and execution of simultaneous growth projects.
Its potential impact	The Group is critically dependent on the skills and experience of a small number of senior managers and specialists and as the business develops and expands, the Group's success will inevitably depend on its ability to attract and retain the necessary calibre of personnel for key positions, both for managing and growing its existing businesses and setting up new ones.
Risk mitigation measures and strategies adopted	To continue to manage an increased rate of growth successfully, the Group carefully manages its skilled resources including succession planning and maintaining a talent pipeline. The Group is evolving its people capability in line with the geographical expansion and product range. In particular it recognises that the span of management responsibility needs to be balanced with an appropriate management structure within the overall organisation. Hilton continues to invest in on-the-job training and career development, together with the cost effective management of quality information and control systems, whilst recruiting high quality new employees, as required, to facilitate the Group's ongoing growth and in deploying resource to support the growth projects appropriately. The continuing growth of Hilton's business, together with its growing reputation, is facilitating the recruitment of more top class specialists with the key skill sets required both to support our existing individual country business units and manage the Group's future geographical expansion.

Description of risk	The Group's current rate of global growth places significant demands on the effectiveness of integration and compliance across new political, legislative and regulatory environments. This risk is further compounded due to the enormity of the change and programme management activities.
Its potential impact	The Group's ability to effectively manage simultaneously the requirements of the external and internal environments ensuring first class compliance, change and global programme management systems.
Risk mitigation measures and strategies adopted	As a Group we have continued to strengthen our in house capabilities delivering strong investment strategies, best in class Infrastructure integration and governance and compliance framework. Resources are being put in place and structures reviewed to enhance project management control and oversight. Control systems embedded in project management enable the risks of growth to be appropriately highlighted and managed. To underscore our efforts we have active relationships with strong industry experts across all areas of business growth.

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

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

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 26 March 2019 and is signed on its behalf by:

Directors

R Watson OBE	Executive Chairman
N Majewski	Chief Financial Officer

Consolidated income statement

	Notes	**2018** **52 weeks** **£'000**	2017* 52 weeks £'000
Continuing operations			
Revenue	3	**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	4	**-**	(2,843)
Share of profit in joint venture		**5,213**	4,387
Operating profit		**46,298**	35,111
Finance income	5	**49**	66
Finance costs	5	**(3,015)**	(970)
Finance costs – net	5	**(2,966)**	(904)
Profit before income tax		**43,332**	34,207
Income tax expense	6	**(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)	7	**39.9**	33.2
Diluted (pence)	7	**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 income/(expense) 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 are an integral part of these consolidated financial statements.

Consolidated balance sheet

	Notes	Group 2018 £'000	Group 2017* £'000	Company 2018 £'000	Company 2017 £'000
Assets					
Non-current assets					
Property, plant and equipment	9	**158,549**	80,596	**-**	-
Intangible assets	10	**66,960**	68,572	**-**	-
Investments		**5,209**	10,273	**157,221**	102,985
Trade and other receivables		**1,227**	2,455	**-**	-
Deferred income tax assets		**1,653**	1,624	**-**	-
		233,598	163,520	**157,221**	102,985
Current assets					
Inventories		**82,190**	51,458	**-**	-
Trade and other receivables		**172,465**	139,616	**272**	54,237
Current income tax assets		**769**	-	**-**	-
Other financial asset		**7,813**	7,913	**-**	-
Cash and cash equivalents		**80,234**	70,853	**82**	204
		343,471	269,840	**354**	54,441
Total assets		**577,069**	433,360	**157,575**	157,426
Equity					
Equity attributable to owners of the parent					
Ordinary shares		**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	**-**	-
Total equity		**181,246**	163,744	**157,575**	157,426
Liabilities					
Non-current liabilities					
Borrowings	11	**109,426**	38,056	**-**	-
Deferred income tax liabilities		**6,104**	6,166	**-**	-
		115,530	44,222	**-**	-
Current liabilities					
Borrowings	11	**5,408**	15,268	**-**	-
Trade and other payables		**274,885**	209,586	**-**	-
Current income tax liabilities		**-**	540	**-**	-
		280,293	225,394	**-**	-
Total liabilities		**395,823**	269,616	**-**	-
Total equity and liabilities		**577,069**	433,360	**157,575**	157,426

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

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

The financial statements 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

Consolidated statement of changes in equity

		Attributable to owners of the parent									
Group	Notes	Share capital £'000	Share premium £'000	Employee share schemes reserve £'000	Foreign currency translation reserve £'000	Retained earnings £'000	Reverse acquisition reserve £'000	Merger reserve £'000	Total £'000	Non-controlling interests £'000	Total equity £'000
Balance at 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	8	-	-	-	-	(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	8	**-**	**-**	**-**	**-**	**(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**
Company											
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	8	-	-	-	-	(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	8	**-**	**-**	**-**	**-**	**(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 are an integral part of these consolidated financial statements.

Consolidated cash flow statement

	Notes	Group 2018 52 weeks £'000	Group 2017 52 weeks £'000	Company 2018 52 weeks £'000	Company 2017 52 weeks £'000
Cash flows from operating activities					
Cash generated from operations	12	**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
Cash flows from investing activities					
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
Cash flows from financing activities					
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)
Net increase/(decrease) in cash and cash equivalents		**9,355**	9,929	**(122)**	(4)
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	**-**	-
Cash and cash equivalents at end of the year		**80,234**	70,853	**82**	204

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 leading specialist international food packing business supplying major international food retailers in fourteen European countries and Australia.

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).

This preliminary announcement was approved for issue on 26 March 2019.

2 Summary of significant accounting policies

The accounting policies are consistent with those of the annual financial statements for the year ended 31 December 2017, with the exception of changes to the group's revenue policy following the introduction of IFRS 15 Revenue form Contracts with Customers.

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 a prior year adjustment 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 the changes.

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 financial information included in this preliminary announcement does not constitute statutory accounts of the Group for the years ended 30 December 2018 and 31 December 2017 but is derived from those accounts. Statutory accounts for 2017 have been delivered to the Registrar of Companies and those for 2018 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 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	**248,563**	**17,239**	**123,918**	**389,720**	208,020	9,201	45,689	262,910
Current income tax liabilities				**-**				540
Deferred income tax liabilities				**6,104**				6,166
Total liabilities				**395,824**				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.

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	2017	**2018**	2017
	£'000	£'000	**£'000**	£'000
Analysis by geographical area				
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
Analysis by principal customer				
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		

4 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.

5 Finance income and costs

Group	**2018** **£'000**	2017 £'000
Finance income		
Interest income on short term bank deposits	**46**	64
Other interest income	**3**	2
Finance income	**49**	66
Finance costs		
Bank borrowings	**(2,735)**	(563)
Finance leases	**(60)**	(67)
Other interest expense	**(220)**	(340)
Finance costs	**(3,015)**	(970)
Finance costs – net	**(2,966)**	(904)

6 Income tax expense

Group	**2018** **£'000**	2017 £'000
Current income tax		
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
Deferred income tax		
Origination and reversal of temporary differences	**(136)**	(504)
Adjustments to tax in respect of previous years	**89**	78
Total deferred tax	**(47)**	(426)
Income tax expense	**8,626**	7,167

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
Profit before income tax	**43,332**	34,207
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
Income tax expense	**8,626**	7,167

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

7 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.

			2018		2017
Group		**Basic**	**Diluted**	Basic	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

8 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.

9 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 2 January 2017	39,900	192,760	12,048	354	245,062
Exchange adjustments	621	5,203	391	5	6,220
Acquisition	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
Accumulated depreciation					
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
Net book amount					
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
Cost					
At 1 January 2018	**48,435**	**215,390**	**13,695**	**345**	**277,865**
Exchange adjustments	**421**	**80**	**(80)**	**1**	**422**
Additions	**29,472**	**67,853**	**932**	**155**	**98,412**
Disposals	**(3,019)**	**(463)**	**(420)**	**(149)**	**(4,051)**
At 30 December 2018	**75,309**	**282,860**	**14,127**	**352**	**372,648**
Accumulated depreciation					
At 1 January 2018	**24,944**	**160,930**	**11,269**	**126**	**197,269**
Exchange adjustments	**135**	**666**	**(69)**	**1**	**733**
Charge for the year	**3,166**	**15,682**	**989**	**84**	**19,921**
Disposals	**(2,939)**	**(382)**	**(420)**	**(83)**	**(3,824)**
At 30 December 2018	**25,306**	**176,896**	**11,769**	**128**	**214,099**
Net book amount					
At 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 11. 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).

10 Intangible assets

Group	Computer software £'000	Brand and customer relationships £'000	Goodwill £'000	Total £'000
Cost				
At 2 January 2017	3,703	-	836	4,539
Exchange adjustments	198	-	-	198
Acquisition	-	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
Accumulated amortisation				
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
Net book amount				
At 2 January 2017	882	-	836	1,718
At 31 December 2017	2,232	21,547	44,793	68,572
Cost				
At 1 January 2018	**5,357**	**21,907**	**44,793**	**72,057**
Exchange adjustments	**(14)**	**-**	**-**	**(14)**
Additions	**930**	**-**	**-**	**930**
At 30 December 2018	**6,273**	**21,907**	**44,793**	**72,973**
Accumulated amortisation				
At 1 January 2018	**3,125**	**360**	**-**	**3,485**
Exchange adjustments	**(15)**	**-**	**-**	**(15)**
Charge for the year	**159**	**2,384**	**-**	**2,543**
At 30 December 2018	**3,269**	**2,744**	**-**	**6,013**
Net book amount				
At 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.

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 1-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 1 percentage point, a reduction in growth rate of 1 percentage point or a 10% reduction in budgeted cash flow. As an indication of sensitivity, when applied to the value-in-use calculation neither a 1% reduction in growth rate, a 10% reduction in budgeted cash flow, nor a 1% increase in the discount rate would have resulted in an impairment of goodwill in the year.

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

11 Borrowings

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

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 a note to the full financial statements.

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

	Minimum lease payments		Present value	
Group	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).

12 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.

13 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:

	Owed from related parties	
Group	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 £nil (2017: £nil) was owed by Hilton Foods UK Limited.

Details of key management compensation are given in a note to the full financial statements.