

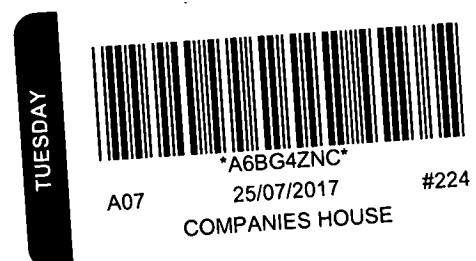
Company Registration No. 02874729

SMITHFIELD FOODS LIMITED

Report and Financial Statements

1 January 2017

(- 07/07/2017)



SMITHFIELD FOODS LIMITED

REPORT AND FINANCIAL STATEMENTS 1 JANUARY 2017

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SMITHFIELD FOODS LIMITED

**Annual report and financial statements
For the 52 weeks ended 1 January 2017**

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

Ross M Ashton
Ian M C Lindsay
Charles S Smith

REGISTERED OFFICE

Norfolk Tower
48-52 Surrey Street
Norwich
Norfolk
United Kingdom
NR1 3PA

AUDITOR

Deloitte LLP
Statutory Auditor
Cambridge
United Kingdom

SMITHFIELD FOODS LIMITED

STRATEGIC REPORT

The directors present their strategic report for the 52 weeks ended 1 January 2017.

REVIEW OF THE BUSINESS

The principal activities of the company are the sales, marketing and distribution of both fresh and processed Smithfield group meat products.

The period ending 1 January 2017 was a 52 week period. The prior period was a 53 week period.

The results for the company show turnover of £83,683,000 (53 weeks to 3 January 2016 - £70,591,000) and a profit on ordinary activities before taxation of £443,000 (53 weeks to 3 January 2016 - £355,000). Net assets were £8,264,000 (3 January 2016 - £8,099,000).

The directors monitor the performance of the company by reference to the following financial KPIs:

	52 weeks to 1 January 2017	53 weeks to 3 January 2016
Increase in average weekly net sales (%)	20.8%	18.1%
Gross profit to net sales ratio (%)	5.8%	6.4%
Administrative expenses to net sales ratio (%)	5.2%	5.9%

Average weekly net sales growth was higher than the previous year, driven by sales of fresh pork and fresh chicken, with relatively slower growth for fresh turkey and processed meats. Significant opportunities exist in 2017 to grow processed sales at a faster rate than fresh, and there is an expectation that fresh pork sales will decline due to market conditions. The combined effect is expected to deliver continued net sales growth in 2017 but at a slower rate.

Gross profit to net sales has been diluted by the growth of fresh pork in particular which tends to be at lower rates than poultry and processed.

Administrative expenses growth was restrained and significantly below net sales growth, demonstrating increasingly efficient use of resources.

PRINCIPAL RISKS AND UNCERTAINTIES

All risks and uncertainties are monitored on a regular basis with action plans put in place to mitigate any adverse effects on the business. The key business risks affecting the company are the overall economic climate, competitive pressures and potential supply chain disruptions.

Supply chain risk is mitigated by sourcing from sister companies together with appropriate insurance coverage.

Economic uncertainty caused by the Brexit referendum result has principally manifested itself in adverse exchange rate movements for the company, as an importer. The company's principal supply of goods is priced in GBP with a robust hedging strategy in place by the group supplier. This has helped to mitigate the impact, however the pricing pressure still exists and where possible has been passed to customers. The directors will consider and respond to other Brexit risks on an ongoing basis in preparation for the end of the UK's membership of the EU.

FINANCIAL RISKS

The company's operations expose it to a variety of financial risks. The company has in place a risk management programme that seeks to limit any adverse effects on the financial performance of the company.

Price risk

The company is indirectly exposed to commodity price risk as a result of its operations. However, given the size of the company's operations, the costs of managing exposure to commodity price risk exceed any potential benefits. The directors will revisit the appropriateness of this policy should the company's operations change in size or nature.

SMITHFIELD FOODS LIMITED

STRATEGIC REPORT

FINANCIAL RISKS (continued)

Credit risk

The company has policies which require appropriate checks on potential and existing customers, coupled with credit approval at a senior level of management. The group has a diverse customer base skewed towards companies that the directors consider to be low risk. In 2016 the largest customer constituted 9% of net sales which demonstrates there is not an over-reliance on a single customer.

Liquidity risk

The company retains sufficient cash and facilities to ensure it has sufficient available funds for operations and planned expansions.

Interest rate risk

The company has both interest bearing assets and interest bearing liabilities. Interest bearing assets include only cash balances which attract interest at a floating rate. Interest bearing liabilities include advances made in respect of trade debtors under invoice discounting arrangements, which attract interest at a variable rate. The company does not use derivative financial instruments to manage interest rate costs and, as such, no hedge accounting is applied.

Foreign exchange risk

The company has foreign currency debtors and creditors creating exposure to adverse exchange rate movements. Where possible the company seeks to match foreign currency income and expenditure as a natural hedge. During the year the company experienced growing Euro exposure and has resumed its use of forward contracts to mitigate the effect of exchange rate movements. However, at the present time the exposure remains low and at the year end there were no derivative instruments in place to manage foreign exchange risk.

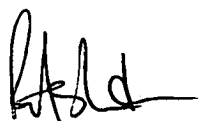
RESEARCH AND DEVELOPMENT

The company expenses all R&D expenditure during the year that it was incurred.

RESULTS AND DIVIDENDS

The profit for the reporting period after taxation amounted to £364,000 (53 weeks to 3 January 2016 - £274,000). The directors do not recommend the payment of a dividend (53 weeks to 3 January 2016 - £nil).

Approved by the Board of Directors
and signed on behalf of the Board



R Ashton

Director

14 JULY 2017

SMITHFIELD FOODS LIMITED

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements of the company for the 52 weeks ended 1 January 2017.

DIRECTORS

The directors who served throughout the period and up to the date of signing the financial statements were as follows:

Ross M Ashton
Ian M C Lindsay
Charles S Smith

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors have considered significant post period end events, the company's policy on research and development and future outlook in the Strategic Report.

GOING CONCERN

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis in preparing the annual financial statements.

Further details regarding the adoption of the going concern basis can be found in the Statement of accounting policies in the financial statements.

SMITHFIELD FOODS LIMITED

DIRECTORS' REPORT

AUDITOR

In the case of each of the persons who are directors of the company at the date when this report is approved:

- so far as each of the directors is aware, there is no relevant audit information of which the company's auditor is unaware; and
- each of the directors has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office as auditor.

Approved by the Board of Directors
and signed on behalf of the Board



R Ashton

Director

14 JULY 2017

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SMITHFIELD FOODS LIMITED

We have audited the financial statements of Smithfield Foods Limited for the 52 weeks ended 1 January 2017 which comprise the income statement, the statement of comprehensive income, the statement of financial position, the statement of changes in equity and the related notes 1 to 19. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 1 January 2017 and of its profit for the 52 weeks then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SMITHFIELD FOODS LIMITED (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Paul Adkins (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
Cambridge, United Kingdom

21 JULY 2017

SMITHFIELD FOODS LIMITED

INCOME STATEMENT

52 weeks ended 1 January 2017

	Note	52 weeks to 1 January 2017 £'000	53 weeks to 3 January 2016 £'000
TURNOVER	3	83,683	70,591
Cost of sales		(78,867)	(66,047)
Gross profit		4,816	4,544
Administrative expenses		(4,332)	(4,132)
OPERATING PROFIT	4	484	412
Interest receivable and similar income	7	38	14
Interest payable and similar charges	8	(79)	(71)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		443	355
Tax on profit on ordinary activities	9	(79)	(81)
PROFIT FOR THE FINANCIAL PERIOD		364	274

All activities derive from continuing operations.

STATEMENT OF COMPREHENSIVE INCOME

52 weeks ended 1 January 2017

	52 weeks to 1 January 2017 £'000	53 weeks to 3 January 2016 £'000
Profit for the financial period	364	274
Remeasurement of net defined benefit asset	(250)	601
Tax relating to components of other comprehensive income	51	(108)
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL PERIOD	165	767

SMITHFIELD FOODS LIMITED

STATEMENT OF FINANCIAL POSITION

1 January 2017

	Note	1 January 2017 £'000	3 January 2016 £'000
FIXED ASSETS			
Tangible assets	10	179	262
Investments	11	1,100	1,100
		<u>1,279</u>	<u>1,362</u>
CURRENT ASSETS			
Stocks	12	4,719	4,646
Debtors	13	12,571	12,153
Cash at bank and in hand		614	121
		<u>17,904</u>	<u>16,920</u>
CREDITORS: amounts falling due within one year	14	<u>(11,561)</u>	<u>(10,951)</u>
NET CURRENT ASSETS		<u>6,343</u>	<u>5,969</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		7,622	7,331
PROVISION FOR LIABILITIES AND CHARGES	15	(137)	(223)
Pension asset	17	779	991
NET ASSETS		<u>8,264</u>	<u>8,099</u>
CAPITAL AND RESERVES			
Called up share capital	16	432	432
Capital redemption reserve	16	3	3
Income statement	16	7,829	7,664
SHAREHOLDERS' FUNDS		<u>8,264</u>	<u>8,099</u>

The financial statements of Smithfield Foods Limited, registered number 02874729, were approved by the Board of Directors and authorised for issue on 14 JULY 2017

They were signed on its behalf by

R Ashton

Director



SMITHFIELD FOODS LIMITED

STATEMENT OF CHANGES IN EQUITY At 1 January 2017

	Called-up share capital £'000	Capital redemption reserve £'000	Income statement £'000	Total £'000
At 28 December 2014	<u>432</u>	<u>3</u>	<u>6,897</u>	<u>7,332</u>
Profit for the financial period	-	-	274	274
Remeasurement of net defined benefit liability	-	-	601	601
Tax relating to items of other comprehensive income	-	-	(108)	(108)
Total comprehensive income	<u>-</u>	<u>-</u>	<u>767</u>	<u>767</u>
At 3 January 2016	<u>432</u>	<u>3</u>	<u>7,664</u>	<u>8,099</u>
Profit for the financial period	-	-	364	364
Remeasurement of net defined benefit liability	-	-	(250)	(250)
Tax relating to items of other comprehensive income	-	-	51	51
Total comprehensive income	<u>-</u>	<u>-</u>	<u>165</u>	<u>165</u>
At 1 January 2017	<u><u>432</u></u>	<u><u>3</u></u>	<u><u>7,829</u></u>	<u><u>8,264</u></u>

SMITHFIELD FOODS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

52 weeks ended 1 January 2017

1. ACCOUNTING POLICIES

The principal accounting policies are summarised below. They have all been applied consistently throughout the period and the preceding period.

General information and basis of accounting

Smithfield Foods Limited is a company incorporated in the United Kingdom under the Companies Act. The nature of the company's operations and its principal activities are set out in the strategic report on pages 2 and 3.

The financial statements have been prepared under the historical cost convention, modified by the revaluation of certain assets, and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

The functional currency of Smithfield Foods Limited is considered to be pounds sterling because that is the currency of the primary economic environment in which the company operates.

Smithfield Foods Limited meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its financial statements. Exemptions have been taken in relation to financial instruments, presentation of a cash flow statement, intra-group transactions and remuneration of key management personnel.

Consolidation

The company is a wholly owned subsidiary of Smithfield Foods Group Limited, which prepares consolidated financial statements. Accordingly, the preparation of group financial statements is not required under section 400 of the Companies Act 2006. These financial statements present information about the company as an individual undertaking and not about its group.

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the strategic report. The strategic report also describes the financial position of the Company; the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; and its exposure to credit risk and liquidity risk.

The Company meets its day to day working capital requirements through a 12 month rolling invoice discounting facility which is due for renewal in February 2018. The Company has held discussions with its bankers about its future borrowing needs and no matters have been drawn to its attention to suggest that renewal may not be forthcoming on acceptable terms.

The Company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Company should be able to operate within the level of its current facility.

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Turnover

Turnover represents the total amount receivable (excluding value added tax) in the ordinary course of business and is recognised at the point at which the company has fulfilled its obligation with respect to the sale, which generally occurs on delivery.

SMITHFIELD FOODS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

52 weeks ended 1 January 2017

1. ACCOUNTING POLICIES (continued)

Tangible fixed assets

Tangible assets are stated at historic purchase cost less accumulated depreciation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Depreciation is calculated to write off the cost of tangible assets, less their residual values, over their expected useful lives, which are periodically reviewed, using the straight line basis as follows:

Plant and machinery 10% to 33.3%

Stocks

Stocks are stated at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items. Cost is determined on a first in, first out basis. Net realisable value is the price at which stocks can be sold in the normal course of business, net of further costs to be incurred, if any.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax liabilities are recognised for timing differences arising from investments in subsidiaries and associates, except where the Group is able to control the reversal of the timing difference and it is probable that it will not reverse in the foreseeable future.

Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date that are expected to apply to the reversal of the timing difference. Deferred tax relating to property, plant and equipment is measured using the revaluation model and investment property is measured using the tax rates and allowances that apply to sale of the asset.

Where items recognised in other comprehensive income or equity are chargeable to or deductible for tax purposes, the resulting current or deferred tax expense or income is presented in the same component of comprehensive income or equity as the transaction or other event that resulted in the tax expense or income.

Current tax assets and liabilities are offset only when there is a legally enforceable right to set off the amounts and the Group intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Deferred tax assets and liabilities are offset only if: a) the Group has a legally enforceable right to set off current tax assets against current tax liabilities; and b) the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Leases

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged to the income statement on a straight line basis over the life of the lease.

SMITHFIELD FOODS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

52 weeks ended 1 January 2017

1. ACCOUNTING POLICIES (continued)

Investments

Investments in subsidiary undertakings are stated at cost in the financial statements of the company less any provision necessary for impairment in value.

Provisions

Provisions are recognised where there is a present obligation as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Pension costs

Defined benefit scheme

As a result of the transfer of the assets and trade of Pek London Limited to the company on 18 April 2006, the company replaced Pek London Limited as the Principal Employer to the Ridpath Pek Ltd Pension and Life Assurance Fund. The scheme was closed to further accrual with effect from 1 October 2003.

For defined benefit schemes the amounts charged to operating profit are the costs arising from employee services rendered during the period and the cost of plan introductions, benefit changes, settlements and curtailments. They are included as part of staff costs. The net interest cost on the net defined benefit liability is charged to the income statement and included within interest receivable and similar income. Remeasurement comprising actuarial gains and losses and the return on scheme assets (excluding amounts included in net interest on the net defined benefit liability) are recognised immediately in other comprehensive income.

Defined benefit schemes are funded, with the assets of the scheme held separately from those of the Company, in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit credit method. The actuarial valuations are obtained at least triennially and are updated at each period end date.

Defined contribution scheme

For defined contribution schemes the amount charged to the income statement in respect of pension costs and other retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the statement of financial position.

Foreign exchange

Transactions denominated in foreign currencies are translated into sterling at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the period end date are translated at the rates ruling at that date. Translation differences arising are dealt with in the income statement.

Financial instruments

Financial assets and financial liabilities are recognised upon becoming a party to the contractual provisions of the instrument.

Trade debtors

Trade debtors are non-interest bearing and are stated at their nominal value, as reduced by appropriate allowances for estimated irrecoverable amounts.

Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that gives a residual interest in the assets of the company after deducting all of its liabilities.

SMITHFIELD FOODS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

52 weeks ended 1 January 2017

1. ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Trade creditors

Trade creditors are not interest bearing and are stated at their nominal value.

Equity instruments

Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs.

Impairment of assets

Assets, other than those measured at fair value, are assessed for indicators of impairment at each balance sheet date. If there is objective evidence of impairment, an impairment loss is recognised in profit or loss as described below.

Non-financial assets

An asset is impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated recoverable value of the asset has been reduced. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

The recoverable amount of goodwill is derived from measurement of the present value of the future cash flows of the cash-generating units of which the goodwill is a part. Any impairment loss in respect of a CGU is allocated first to the goodwill attached to that CGU, and then to other assets within that CGU on a pro-rata basis.

Where indicators exist for a decrease in impairment loss, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised. Where a reversal of impairment occurs in respect of a CGU, the reversal is applied first to the assets (other than goodwill) of the CGU on a pro-rata basis and then to any goodwill allocated to that CGU.

Financial assets

For financial assets carried at amortised cost, the amount of an impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that would be received for the asset if it were to be sold at the reporting date.

Where indicators exist for a decrease in impairment loss, and the decrease can be related objectively to an event occurring after the impairment was recognised, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired financial asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised.

SMITHFIELD FOODS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

52 weeks ended 1 January 2017

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, which are described in note 1, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the Company's accounting policies

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Pension commitments

The directors have made assumptions to calculate the assets and liabilities of the defined benefit pension scheme. The pension scheme has assets of £6,605,000 (3 January 2016 - £6,157,000) and liabilities of £5,826,000 (3 January 2016 - £5,166,000). The assumptions are documented in note 17 of the financial statements. The directors are comfortable with the assumptions on the basis of having taken account of expert actuarial advice. The directors have also made assumptions in relation to the control, and therefore recognition, of the net pension surplus and believe this asset to be recoverable after expert legal advice. The pension asset recognised in the Company's statement of financial position is £779,000 (3 January 2016 - £991,000).

3. TURNOVER AND REVENUE

The turnover and profit before tax are attributable to the one principal activity of the company, undertaken in the United Kingdom. An analysis of turnover by destination is given below:

	52 weeks to 1 January 2017 £'000	53 weeks to 3 January 2016 £'000
Sale of goods revenue		
United Kingdom	76,733	64,937
Overseas	6,950	5,654
TURNOVER	83,683	70,591
Interest revenue		
Net interest on defined benefit asset	38	14
TOTAL REVENUE	83,721	70,605

SMITHFIELD FOODS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

52 weeks ended 1 January 2017

4. OPERATING PROFIT

	52 weeks to 1 January 2017 £'000	53 weeks to 3 January 2016 £'000
Operating profit is stated after charging/(crediting):		
Depreciation of owned tangible assets	99	88
Operating lease rentals	102	93
Foreign exchange gains	(69)	(16)
Cost of stock recognised as an expense	76,963	64,454
The analysis of auditor's remuneration is as follows:		
Fees payable to the company's auditor for the audit of the company's accounts	37	32
Fees payable to the company's auditor for taxation compliance services	4	4
	<u> </u>	<u> </u>

5. DIRECTORS' EMOLUMENTS

The directors' aggregate emoluments in respect of qualifying services were:

	52 weeks to 1 January 2017 £'000	53 weeks to 3 January 2016 £'000
Aggregate emoluments	301	348
Company contributions to defined contribution pension scheme	42	47
	<u> </u>	<u> </u>
	343	395
	<u> </u>	<u> </u>

Retirement benefits were accruing to two directors (53 weeks to 3 January 2016 - two) under defined contribution company pension schemes during the year under review.

Emoluments payable to the highest paid director are as follows:

	52 weeks to 1 January 2017 £'000	53 weeks to 3 January 2016 £'000
Emoluments receivable	201	229
Company contributions to defined contribution pension schemes	27	33
	<u> </u>	<u> </u>
	228	262
	<u> </u>	<u> </u>

SMITHFIELD FOODS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

52 weeks ended 1 January 2017

6. EMPLOYEE INFORMATION

	52 weeks to 1 January 2017 No	53 weeks to 3 January 2016 No
The average monthly number of persons (including executive directors) employed by the company during the period was:		
Sales	12	11
Administration	32	31
	<u>44</u>	<u>42</u>
	£'000	£'000
The aggregate payroll costs of these persons were as follows:		
Wages and salaries	1,958	2,117
Social security costs	241	241
Other pension costs	176	185
	<u>2,375</u>	<u>2,543</u>

7. INTEREST RECEIVABLE AND SIMILAR INCOME

	52 weeks to 1 January 2017 £'000	53 weeks to 3 January 2016 £'000
Interest receivable on bank accounts	-	1
Net interest on defined benefit asset	38	13
	<u>38</u>	<u>14</u>

8. INTEREST PAYABLE AND SIMILAR CHARGES

	52 weeks to 1 January 2017 £'000	53 weeks to 3 January 2016 £'000
Interest payable on invoice discounting facility	79	71

SMITHFIELD FOODS LIMITED

NOTES TO THE FINANCIAL STATEMENTS 52 weeks ended 1 January 2017

9. TAX ON PROFIT ON ORDINARY ACTIVITIES

Analysis of tax charge in the period

	52 weeks to 1 January 2017 £'000	53 weeks to 3 January 2016 £'000
Current tax:		
UK corporation tax on profits of the period	115	68
Adjustment in respect of previous years	(1)	7
Total current tax	114	75
Deferred tax		
Origination and reversal of timing differences	(27)	6
Adjustment in respect of previous periods	(9)	-
Effect of tax changes in tax rates	1	-
Total deferred tax	(35)	6
Tax on profit on ordinary activities	79	81

Factors affecting tax credit for the period

The current tax assessed for the period is different to the standard rate of corporation tax in the UK of 20% (53 weeks to 3 January 2016 – 20.25%). The differences are explained below:

	52 weeks to 1 January 2017 £'000	53 weeks to 3 January 2016 £'000
Profit on ordinary activities before tax	443	355
Profit on ordinary activities before tax at the standard rate of corporation tax in the UK of 20% (53 weeks to 3 January 2016 – 20.25%)	89	72
Effects of:		
Income not chargeable to corporation tax	-	(3)
Expenses not deductible for tax purposes	-	5
Adjustment in respect of previous years	(10)	7
Total tax charge for the period	79	81

Factors affecting tax charge for future years

In recent years the UK Government has steadily reduced the rate of UK corporation tax, with the latest rates substantively enacted by the balance sheet date being 20% with effect from 1 April 2015, 19% effective from 1 April 2017 and 17% effective from 1 April 2020. The closing deferred tax assets and liabilities have been calculated at 17%, on the basis that this is the rate at which those assets and liabilities are expected to unwind.

SMITHFIELD FOODS LIMITED

NOTES TO THE FINANCIAL STATEMENTS 52 weeks ended 1 January 2017

10. TANGIBLE FIXED ASSETS

	Plant and machinery £'000
Cost	
At 4 January 2016	656
Additions	16
	<hr/>
At 1 January 2017	672
	<hr/>
Depreciation	
At 4 January 2016	394
Charge for the period	99
	<hr/>
At 1 January 2017	493
	<hr/>
Net book value	
At 1 January 2017	179
	<hr/>
At 3 January 2016	262
	<hr/>

11. INVESTMENTS

	Shares in subsidiary undertaking £'000
Cost and net book value	
At 4 January 2016 and 1 January 2017	1,100
	<hr/>

In the opinion of the directors the value of the investment in the subsidiary undertaking is not less than the aggregate amount at which it is carried in the statement of financial position.

Subsidiary undertaking	Country of incorporation	Percentage of ordinary shares held	Principal activity
Pek London Limited	Great Britain	100%	Non-trading

Registered office: Norfolk Tower, 48-52 Surrey Street, Norwich, Norfolk, NR1 3PA

SMITHFIELD FOODS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

52 weeks ended 1 January 2017

12. STOCKS

	1 January 2017 £'000	3 January 2016 £'000
Finished goods	4,719	4,646

The replacement cost of stocks does not differ materially from the values disclosed above.

13. DEBTORS

	1 January 2017 £'000	3 January 2016 £'000
Amounts falling due within one year		
Trade debtors	11,815	11,517
Amounts owed by group undertakings	11	11
Other debtors	127	112
Prepayments and accrued income	618	513
	12,571	12,153

Amounts owed by group undertakings are unsecured, interest free, and repayable on demand.

14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1 January 2017 £'000	3 January 2016 £'000
Invoice discounting advances	2,499	2,350
Trade creditors	1,361	1,057
Group trading relationships	4,950	4,910
Group loans	1,100	1,100
Corporation tax	64	32
Other taxation and social security	-	73
Accruals and deferred income	1,587	1,429
	11,561	10,951

Advances under invoice discounting arrangements are secured by a fixed and floating charge over the trade debtors of the company.

Group loans are unsecured, interest free and repayable on demand.

SMITHFIELD FOODS LIMITED

NOTES TO THE FINANCIAL STATEMENTS 52 weeks ended 1 January 2017

15. PROVISION FOR LIABILITIES AND CHARGES

The movement in deferred tax during the period was:

	£'000
At 4 January 2016	(223)
Credited to income statement	35
Credited to other comprehensive income	51
	<hr/>
At 1 January 2017	(137)
	<hr/>

The deferred tax liability consists of the tax effect of timing differences in respect of:

	1 January 2017 £'000	3 January 2016 £'000
Accelerated capital allowances	(23)	(40)
Other timing differences	(114)	(183)
	<hr/>	<hr/>
	(137)	(223)
	<hr/>	<hr/>

16. CALLED UP SHARE CAPITAL AND RESERVES

	1 January 2017 £'000	3 January 2016 £'000
Called up, allotted and fully paid		
431,666 ordinary shares of £1 each	432	432
	<hr/>	<hr/>

The company's other reserves are as follows:

The capital redemption reserve relates to purchase of own shares.

The income statement represents cumulative profits or losses, net of dividends and other adjustments.

SMITHFIELD FOODS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

52 weeks ended 1 January 2017

17. PENSION COMMITMENTS

Defined benefit scheme

As a result of the transfer of the assets and trade of Pek London Limited to the company on 18 April 2006, the company replaced Pek London Limited as the Principal Employer to the Ridpath Pek Ltd Pension and Life Assurance Fund. The scheme was closed to further accrual with effect from 1 October 2003.

The most recent formal valuation of the scheme was carried out by a qualified independent actuary as at 1 October 2014 and updated to 1 January 2017.

The major assumptions used by the actuary were:

	1 January 2017	3 January 2016
Rate of increase of pensions in payment	3.6%	3.3%
Discount rate	2.6%	3.8%
Inflation	3.3%	3.1%

The mortality assumptions used were as follows:

Investigations have been carried out within the past three years into the mortality experience of the Company's defined benefit schemes. These investigations concluded that the current mortality assumptions include sufficient allowance for future improvements in mortality rates. The assumed life expectations on retirement at age 65 are:

	1 January 2017 Years	3 January 2016 Years
Life expectancies at 65 for individuals currently aged 65		
Men	23	23
Women	25	25
Life expectancies at 65 for individuals currently aged 45		
Men	24	24
Women	27	27

SMITHFIELD FOODS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

52 weeks ended 1 January 2017

17. PENSION COMMITMENTS (continued)

Amounts recognised in the income statement in respect of this defined benefit scheme are as follows:

	1 January 2017 £'000	3 January 2016 £'000
Net interest income	38	13
	<u> </u>	<u> </u>
	1 January 2017 £'000	3 January 2016 £'000
Recognised in other comprehensive income:		
Total (cost) / income related to defined benefit scheme	(250)	601
	<u> </u>	<u> </u>

The amounts included in the statement of financial position arising from the Company's obligations in respect of its defined benefit scheme is as follows:

	1 January 2017 £'000	3 January 2016 £'000
Present value of defined benefit obligations	(5,826)	(5,166)
Fair value of scheme assets	6,605	6,157
	<u> </u>	<u> </u>
Net asset recognised in the statement of financial position	779	991
	<u> </u>	<u> </u>

Movements in the present value of defined benefits obligations were as follows:

	1 January 2017 £'000	3 January 2016 £'000
Opening defined benefit obligation	5,166	5,996
Interest cost	190	211
Actuarial losses/(gains)	781	(859)
Benefits paid	(311)	(182)
	<u> </u>	<u> </u>
Closing defined benefit obligation	5,826	5,166
	<u> </u>	<u> </u>

SMITHFIELD FOODS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

52 weeks ended 1 January 2017

17. PENSION COMMITMENTS (continued)

Movements in the fair value of scheme assets were as follows:

	1 January 2017 £'000	3 January 2016 £'000
Opening fair value of plan assets	6,157	6,372
Interest income	228	224
Return on plan assets (excluding amounts included in net interest cost)	531	(258)
Contributions from the employer	1	2
Administration fee paid from Scheme assets	(1)	(1)
Benefits paid	(311)	(182)
Closing fair value of plan assets	<u>6,605</u>	<u>6,157</u>

The analysis of the scheme assets at the period end date was as follows:

	1 January 2017 £'000	3 January 2016 £'000
Unitised with-profits policy	3,474	3,374
Pension annuities held in the trustees' name	3,131	2,783
	<u>6,605</u>	<u>6,157</u>

No contributions are expected to be made to the scheme in the upcoming year other than to cover the administration fee of approximately £1,000.

18. FINANCIAL COMMITMENTS

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

	Other		Land and buildings	
	1 January 2017 £'000	3 January 2016 £'000	1 January 2017 £'000	3 January 2016 £'000
Within one year	12	-	87	87
Between one and five years	32	-	98	194
	<u>44</u>	<u>-</u>	<u>185</u>	<u>281</u>

SMITHFIELD FOODS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

52 weeks ended 1 January 2017

19. PARENT UNDERTAKINGS AND ULTIMATE CONTROLLING PARTY

The company is a wholly owned subsidiary undertaking of Smithfield Foods Group Limited, a company incorporated in the UK, which is the smallest group to consolidate the company. Smithfield Foods Group Limited in turn is owned by SFDS Global Holdings BV, a company incorporated in the Netherlands. Each of these companies is a wholly owned subsidiary of WH Group Limited ("WHG"), incorporated in the Cayman Islands and listed on the Stock Exchange of Hong Kong, which was the largest group to consolidate the company. Copies of WHG's group financial statements are available from www.wh-group.com. The ultimate parent undertaking and controlling party was WH Group Limited.