

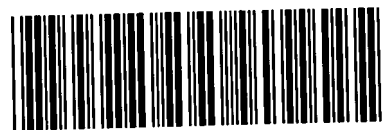
**Company Registration No. 02874729**

**SMITHFIELD FOODS LIMITED**

**Report and Financial Statements**

**31 December 2017**

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# **SMITHFIELD FOODS LIMITED**

## **Report and Financial Statements 31 December 2017**

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**SMITHFIELD FOODS LIMITED**

**Annual report and financial statements  
For the 52 weeks ended 31 December 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**

KPMG LLP  
Dragonfly House  
2 Gilders Way  
Norwich  
NR3 1UB

# SMITHFIELD FOODS LIMITED

## STRATEGIC REPORT

The directors present their strategic report for the 52 weeks ended 31 December 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 31 December 2017 was a 52-week period. The prior period was also a 52-week period.

The results for the company show turnover of £89,449k (52 weeks to 1 January 2017 - £83,683k) and a profit on ordinary activities before taxation of £468k (52 weeks to 1 January 2017 - £443k). Net assets were £8,738k (1 January 2017 - £8,264k).

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

	52 Weeks to 31 December 2017	52 Weeks to 1 January 2017
Increase in average weekly net sales (%)	6.9%	20.8%
Gross profit to net sales ratio (%)	4.8%	5.8%
Administrative expenses to net sales ratio (%)	4.2%	5.2%

Average weekly net sales growth was 6.9%, driven by pricing and the sales mix. Volume was flat overall with market conditions causing a significant decline in fresh pork sales. This has been offset by strong growth in fresh poultry and processed meats. Significant opportunities remain across our key categories, coupled with group acquisitions and investments in central Europe providing access to growing supply volume. The combined effect is expected to deliver continued net sales growth in 2018 and beyond.

Gross profit to net sales has been diluted with product costs affected by continued Sterling weakness throughout 2017.

Administrative expenses were down year on year, 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.

Ongoing 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. Where possible prices to customers have been increased which has helped to mitigate the impact; however, Sterling remains weak and volatile. 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**

### **FINANCIAL RISKS (continued)**

#### *Credit risk*

The company has policies which require appropriate checks on potential and existing customers, coupled with trade credit insurance since 1 January 2018. The group has a diverse customer base skewed towards companies that the directors consider to be low risk. In 2017 the largest customer constituted 10% of net sales which demonstrates there is not an over-reliance on a single customer.

#### *Liquidity risk*

The company retains appropriate 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. A policy is in place to determine the use of forward contracts to mitigate the effect of exchange rate movements. However, at present the exposure remains low and at the year end there were no derivative instruments in place to manage foreign exchange risk.

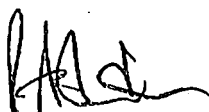
### **RESEARCH AND DEVELOPMENT**

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 £379k (52 weeks to 1 January 2017 - £364k). The directors do not recommend the payment of a dividend (52 weeks to 1 January 2017 - £nil).

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



**R Ashton**

Director

18 September 2018

# **SMITHFIELD FOODS LIMITED**

## **DIRECTORS REPORT**

The directors present their annual report and the audited financial statements of the company for the 52 weeks ended 31 December 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 Strategic Report, the Directors' 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 they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

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 judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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 responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect 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

### 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 s 418 of the Companies Act 2006.

KPMG 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

28 September 2018

## **SMITHFIELD FOODS LIMITED**

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

We have audited the financial statements of Smithfield Foods Limited ("the company") for the year ended 31 December 2017 which comprise of the Income Statement, Statement of total recognised gains and losses, Statement of financial position, Statement of changes in equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

#### **Going concern**

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

#### **Strategic report and directors' report**

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

#### **Matters on which we are required to report by exception**

Under the Companies Act 2006 we are required 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 or
- the directors were not entitled to take advantage of the small companies exemption from the requirement to prepare a strategic report.

We have nothing to report in these respects.

#### **Directors' responsibilities**

As explained more fully in their statements set out on page 6, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement,



## SMITHFIELD FOODS LIMITED

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

whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

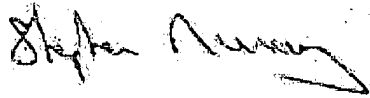
#### Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

#### The purpose of our audit work and to whom we owe our responsibilities

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.



Stephen Muncey (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

KPMG LLP  
Dragonfly House  
2 Gilders Way  
Norwich  
NR3 1UB

Date: 28 September 2018

# SMITHFIELD FOODS LIMITED

## INCOME STATEMENT

52 weeks ended 31 December 2017

	Note	52 Weeks to 31 December 2017 £'000	52 Weeks to 1 January 2017 £'000
<b>TURNOVER</b>	3	89,449	83,683
Cost of Sales		(85,192)	(78,867)
<b>Gross Profit</b>		<u>4,257</u>	<u>4,816</u>
Administrative expenses		(3,743)	(4,332)
<b>OPERATING PROFIT</b>	4	<u>514</u>	<u>484</u>
Interest receivable and similar income	7	21	38
Interest payable and similar expenses	8	(67)	(79)
<b>PROFIT BEFORE TAXATION</b>		<u>468</u>	<u>443</u>
Tax on Profit	9	(89)	(79)
<b>PROFIT AFTER TAXATION</b>		<u><u>379</u></u>	<u><u>364</u></u>

All Activities derive from continuing operations

## STATEMENT OF COMPREHENSIVE INCOME

52 weeks ended 31 December 2017

		52 Weeks to 31 December 2017 £'000	52 Weeks to 1 January 2017 £'000
Profit for the financial period		379	364
Remeasurement of net defined benefit asset	17	114	(250)
Tax relating to components of other comprehensive income	9	(19)	51
<b>TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL PERIOD</b>		<u><u>474</u></u>	<u><u>165</u></u>

**SMITHFIELD FOODS LIMITED**

**STATEMENT OF FINANCIAL POSITION**

**As at 31 December 2017**

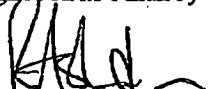
		<b>31 December</b>	<b>1 January</b>
	<b>Note</b>	<b>2017</b>	<b>2017</b>
		<b>£'000</b>	<b>£'000</b>
<b>FIXED ASSETS</b>			
Tangible assets	10	145	179
Investments	11	1,100	1,100
		<u>1,245</u>	<u>1,279</u>
<b>CURRENT ASSETS</b>			
Stocks	12	3,946	4,719
Debtors	13	13,593	12,571
Cash at bank and in hand		190	615
		<u>17,729</u>	<u>17,905</u>
<b>CREDITORS: amounts falling due within one year</b>	14	<b>(10,978)</b>	<b>(11,562)</b>
<b>NET CURRENT ASSETS</b>		<u><b>6,751</b></u>	<u><b>6,343</b></u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>7,996</b>	<b>7,622</b>
Provision for liabilities and charges	15	(172)	(137)
Pension asset	17	914	779
<b>NET ASSETS</b>		<u><u><b>8,738</b></u></u>	<u><u><b>8,264</b></u></u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	16	432	432
Capital redemption reserve	16	3	3
Income statement	16	8,303	7,829
<b>SHAREHOLDERS' FUNDS</b>		<u><u><b>8,738</b></u></u>	<u><u><b>8,264</b></u></u>

The financial statements of Smithfield Foods Limited, registered number 02874729, were approved by the Board of Directors and authorised for issue on **28 September 2018**

They were signed on its behalf by

**R Ashton**

Director



**SMITHFIELD FOODS LIMITED**

**STATEMENT OF CHANGES IN EQUITY**

**At 1 January 2017**

	<b>Called-up share capital £'000</b>	<b>Capital redemption reserve £'000</b>	<b>Income statement £'000</b>	<b>Total £'000</b>
<b>At 3 January 2016</b>	<b>432</b>	<b>3</b>	<b>7,664</b>	<b>8,099</b>
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
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>165</b>	<b>165</b>
<b>At 1 January 2017</b>	<b>432</b>	<b>3</b>	<b>7,829</b>	<b>8,264</b>
Profit for the financial period	-	-	379	379
Remeasurement of net defined benefit liability	-	-	114	114
Tax relating to items of other comprehensive income	-	-	(19)	(19)
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>474</b>	<b>474</b>
<b>At 31 December 2017</b>	<b>432</b>	<b>3</b>	<b>8,303</b>	<b>8,738</b>

# SMITHFIELD FOODS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

52 weeks ended 31 December 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 4 and 5.

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 and ultimately WH 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 April 2019. 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

### 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 50%

#### 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 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**

### **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.

##### *Trade creditors*

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

## SMITHFIELD FOODS LIMITED

### 1. ACCOUNTING POLICIES (continued)

#### Financial instruments (continued)

##### *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

### 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 £6,720k (1 January 2017 - £6,605k) and liabilities of £5,806k (1 January 2017 - £5,826k). 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 £914k (1 January 2017 - £779k).

The directors have recognised the plan surplus as a defined benefit plan asset as they have assessed that the Company will be able to recover the surplus through either reduced contributions in the future or through refunds from the plan. The unitised with profits policy which forms part of the scheme assets includes a market value adjustment of £1,058k at 31 December 2017 (1 January 2017: £938k). The Directors believe this adjustment should be included in the scheme assets to ensure that the asset value represents the Surrender (market) value of the fund at the period end.

### 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 31 December 2017 £'000	52 Weeks to 1 January 2017 £'000
Sale of goods revenue		
United Kingdom	83,687	76,733
Overseas	5,762	6,950
<b>TURNOVER</b>	<b>89,449</b>	<b>83,683</b>
Interest revenue		
Net interest on defined benefit asset	21	38
<b>TOTAL REVENUE</b>	<b>89,470</b>	<b>83,721</b>

# SMITHFIELD FOODS LIMITED

## 4. OPERATING PROFIT

	52 weeks to 31 December 2017 £'000	52 weeks to 1 January 2017 £'000
Operating profit is stated after charging/(crediting):		
Depreciation of owned tangible assets	89	99
Operating lease rentals	103	102
Foreign exchange gains	-	(69)
Cost of stock recognised as an expense	82,907	76,963
The analysis of auditor's remuneration is as follows:		
Fees payable to the company's auditor for the audit of the company's accounts	38	37
Fees payable to the company's auditor for taxation compliance services	5	4

## 5. DIRECTORS' EMOLUMENTS

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

	52 weeks to 31 December 2017 £'000	52 weeks to 1 January 2017 £'000
Aggregate emoluments	226	301
Company contributions to defined contribution pension scheme	44	42
	<u>270</u>	<u>343</u>

Retirement benefits were accruing to two directors (52 weeks to 31 December 2017 - 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 31 December 2017 £'000	52 weeks to 1 January 2017 £'000
Emoluments receivable	146	201
Company contributions to defined contribution pension schemes	29	27
	<u>175</u>	<u>228</u>

# SMITHFIELD FOODS LIMITED

## 6. EMPLOYEE INFORMATION

	52 weeks to 1 December 2017 No	52 weeks to 1 January 2017 No
The average monthly number of persons (including executive directors) employed by the company during the period was:		
Sales	12	8
Administration	35	37
	<u>47</u>	<u>45</u>
	£'000	£'000
The aggregate payroll costs of these persons were as follows:		
Wages and salaries	2,106	1,958
Social security costs	256	241
Other pension costs	174	176
	<u>2,536</u>	<u>2,375</u>

## 7. INTEREST RECEIVABLE AND SIMILAR INCOME

	52 weeks to 31 December 2017 £'000	52 weeks to 1 January 2017 £'000
Interest receivable on bank accounts	-	-
Net interest on defined benefit asset (note 17)	21	38
	<u>21</u>	<u>38</u>

## 8 INTEREST PAYABLE AND SIMILAR CHARGES

	52 weeks to 31 December 2017 £'000	52 weeks to 1 January 2017 £'000
Interest payable on invoice discounting facility	67	79
	<u>67</u>	<u>79</u>

# SMITHFIELD FOODS LIMITED

## 9. TAX ON PROFIT ON ORDINARY ACTIVITIES

Aggregate current and deferred tax

	52 Weeks to 31 December 2017			52 Weeks to 1 January 2017		
	£'000	£'000	£'000	£'000	£'000	£'000
	Current	Deferred	Total	Current	Deferred	Total
	Tax	Tax	Tax	Tax	Tax	Tax
Recognised in Profit and Loss account	74	15	89	114	(35)	79
Recognised in other comprehensive income	-	19	19	-	(51)	(51)
Recognised directly in equity	-	-	-	-	-	-
<b>Total Tax</b>	<b>74</b>	<b>34</b>	<b>108</b>	<b>114</b>	<b>(86)</b>	<b>28</b>

Deferred tax recognised in other comprehensive income relates to remeasurement of net defined benefits pension asset.

### Analysis of tax charge recognised in the profit and loss in the period

	52 Weeks to 31 December 2017 £'000	52 Weeks to 1 January 2017 £'000
<b>Current tax:</b>		
UK corporation tax on profits of the period	74	115
Adjustment in respect of previous years	-	(1)
<b>Total current tax</b>	<b>74</b>	<b>114</b>
<b>Deferred tax</b>		
Origination and reversal of timing differences	15	(27)
Adjustment in respect of previous periods	-	(9)
Effect of tax changes in tax rates	-	1
<b>Total deferred tax</b>	<b>15</b>	<b>(35)</b>
<b>Tax on profit on ordinary activities</b>	<b>89</b>	<b>79</b>

## SMITHFIELD FOODS LIMITED

### 9. TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)

#### 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 19% (52 weeks to 31 December 2017 – 19.25%). The differences are explained below:

	52 Weeks to 31 December 2017 £'000	52 Weeks to 1 January 2017 £'000
Profit before taxation	468	443
Profit before tax at the standard rate of corporation tax in the UK of 19% (52 weeks to 31 December 2017 – 19.25%)	90	89
Effects of:		
Income not chargeable to corporation tax	-	-
Expenses not deductible for tax purposes	1	-
Adjustment in respect of previous years	(2)	(10)
	89	79

#### 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 19% with effect 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

## 10. TANGIBLE FIXED ASSETS

	Plant and machinery
<b>Cost</b>	
At 1 January 2017	672
Additions	59
Disposals	(140)
At 31 December 2017	<u>591</u>
<b>Depreciation</b>	
At 1 January 2017	493
Charge for the period	89
Disposals	(136)
At 31 December 2017	<u>446</u>
<b>Net book value</b>	
At 1 January 2017	<u>179</u>
At 31 December 2017	<u>145</u>

## 11. INVESTMENTS

	31 December 2017 £'000	1 January 2017 £'000
Cost and net book value	<u>1,100</u>	<u>1,100</u>

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

## 12. STOCKS

	31 December 2017 £'000	1 January 2017 £'000
Finished goods	<u>3,946</u>	<u>4,719</u>

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

## 13. DEBTORS

	31 December 2017 £'000	1 January 2017 £'000
Amounts falling due within one year		
Trade debtors	12,876	11,815
Amounts owed by group undertakings	11	11
Other debtors	114	127
Prepayments and accrued income	<u>592</u>	<u>618</u>
	<u>13,593</u>	<u>12,571</u>

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

## 14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	31 December 2017 £'000	1 January 2017 £'000
Invoice discounting advances	1,921	2,499
Trade creditors	2,571	1,361
Group trading relationships	4,228	4,950
Group loans	1,100	1,100
Corporation tax	28	64
Accruals and deferred income	<u>1,130</u>	<u>1,588</u>
	<u>10,978</u>	<u>11,562</u>

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

### 15. PROVISION FOR LIABILITIES AND CHARGES

The movement in deferred tax during the period was:

	£'000
At 1 January 2017	137
Charged to income statement	16
Charged to other comprehensive income	19
At 31 December 2017	<u>172</u>

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

	31 December 2017 £'000	1 January 2017 £'000
Accelerated capital allowances	58	23
Other timing differences	<u>114</u>	<u>114</u>
	<u>172</u>	<u>137</u>

### 16. CALLED UP SHARE CAPITAL AND RESERVES

	31 December 2017 £'000	1 January 2017 £'000
Called up, allotted and fully paid		
431,666 ordinary shares of £1 each	<u>432</u>	<u>432</u>

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

### 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 31 December 2017.

The major assumptions used by the actuary were:

	31 December 2017	1 January 2017
Rate of increase of pensions in payment	3.6%	3.6%
Discount rate	2.5%	2.6%
Inflation	3.3%	3.3%

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:

	31 December 2017 Years	1 January 2017 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	26	27

# SMITHFIELD FOODS LIMITED

## 17. PENSION COMMITMENTS (continued)

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

	31 December 2017 £'000	1 January 2017 £'000
Net interest income	21	38
	<b>31 December 2017 £'000</b>	<b>1 January 2017 £'000</b>
Recognised in other comprehensive income:		
Total income / (cost) related to defined benefit scheme	114	(250)

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:

	31 December 2017	1 January 2017
Present value of defined benefit obligations	(5,806)	(5,826)
Fair value of scheme assets	6,720	6,605
Net asset recognised in the statement of financial position	914	779

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

	31 December 2017	1 January 2017
Opening defined benefit obligation	5,826	5,166
Interest cost	148	190
Actuarial losses/(gains)	49	781
Benefits paid	(217)	(311)
Closing defined benefit obligation	5,806	5,826

## SMITHFIELD FOODS LIMITED

### 17. PENSION COMMITMENTS (continued)

Movement in the fair value of plan assets was as follows:

	31 December 2017 £'000	1 January 2017 £'000
Opening fair value of plan assets	6,605	6,157
Interest income	169	228
Return on plan assets (excluding amounts included in net interest cost)	163	531
Contributions from the employer	1	1
Administration fee paid from Scheme assets	-1	-1
Benefits paid	-217	-311
Closing fair value of plan assets	<u>6,720</u>	<u>6,605</u>

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

	31 December 2017 £'000	1 January 2017 £'000
Unitised with-profits policy	3,578	3,474
Pension annuities held in the trustees' name	<u>3,142</u>	<u>3,131</u>
	<u>6,720</u>	<u>6,605</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.

The directors have recognised the plan surplus as a defined benefit plan asset as they have assessed that the Company will be able to recover the surplus through either reduced contributions in the future or through refunds from the plan. The unitised with profits policy which forms part of the scheme assets includes a market value adjustment of £1,058k at 31 December 2017 (1 January 2017: £938k). The Directors believe this adjustment should be included in the scheme assets to ensure that the asset value represents the Surrender (market) value of the fund at the period end.

### 18. FINANCIAL COMMITMENTS

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

	31 December 2017 £'000	1 January 2017 £'000
<b>Land and Buildings</b>		
Within one year	87	87
Between one and five years	<u>24</u>	<u>98</u>
Total current tax	<u>111</u>	<u>185</u>
<b>Other</b>		
Within one year	12	12
Between one and five years	<u>16</u>	<u>32</u>
Total current tax	<u>28</u>	<u>42</u>
<b>Total Commitments</b>	<u>139</u>	<u>227</u>

## **SMITHFIELD FOODS LIMITED**

### **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. 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 Smithfield Foods, Inc. ("SFI"), incorporated in the State of Virginia, USA, which in turn 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](http://www.wh-group.com). The ultimate parent undertaking and controlling party was WH Group Limited. The smallest group to consolidate the company accounts is Smithfield Foods Inc.