Directors' Report

Background

The Group is a speciality bakery group which is focused on premium, celebration and well-being products. These products are supplied both under the retailers' own brands and through a number of licensed brands to which the Group has access.

A review of the activities and any likely future developments in the business of the Group is given in the Chairman's Statement, Chief Executive's Report and the Strategic Report on pages 1 to 39.

Dividend

The Coronavirus crisis has had a profound impact on the economy and heightened uncertainty around future economic recovery, therefore the Board took the decision as announced on 29 March 2020, to withdraw its proposed interim dividend. While the Board remains committed to the payment of dividends, it believes it is prudent to conserve the Group's cash at this time of heightened instability. The Board will assess the Group's cash position and the outlook for the business at time of the full year results, and will adjust its approach to the final dividend accordingly. It is the Company's intention to pay dividends at an affordable rate so that the Company can continue to invest in the business in order to grow profits.

Directors and their Interests in the Company

The Directors and brief biographies are detailed on pages 44 and 45.

In accordance with the Articles of Association, Stephen Boyd and Raymond Duignan retire by rotation and being eligible offer themselves for re-election at the Company's forthcoming AGM.

The beneficial interests of the Directors in the Ordinary Shares of the Company on 27 June 2020 and 29 June 2019 are set out below:

Ordinary Shares	**27 June 2020**	29 June 2019
P Baker	**96,817**	96,817
R Beveridge	**14,000**	14,000
S A Boyd	**1,095,543**	1,095,543
J G Duffy	**2,443,679**	2,443,679
M Millard	**9,366**	9,366

Details of Directors' share options are set out in Note 6 to the Financial Statements. There has been no change to the Directors' share interests since 27 June 2020.

Details of the emoluments of the Directors are given in Note 6 to the Financial Statements.

Share Capital

Details of the changes in the share capital of the Company during the year are set out in Note 25 to the Financial Statements.

Substantial Interests

The following substantial interests (3 percent or more) in the Company's issued share capital have been notified to the Company as at 28 August 2020:

	Number of shares	**% shareholding**
Ruffer (London)	25,772,674	19.8
FIL Investment International (London)	13,123,829	10.1
Investec Wealth & Investment (RS) (London)	11,590,894	8.9
Canaccord Genuity Wealth Mgt (London)	10,194,522	7.8
Premier Miton Asset Mgt (London)	9,446,639	7.2
London Finance & Investment Group (London)	6,000,000	4.6
Hargreaves Lansdown Asset Mgt (Bristol)	4,202,315	3.2

Research and Development

Research and development (R&D) expenditure is expensed in the year in which it is incurred.

Directors' Report/Continued

Streamlined Energy and Carbon Reporting

The UK Government's Streamlined Energy and Carbon Reporting (SECR) policy was implemented on 1 April 2019, this is the Company's first time adoption of disclosures on energy and carbon. The table below represents Finsbury Food Group's energy use and associated greenhouse gas (GHG) emissions from electricity and fuel in the UK for the year ended 27 June 2020. The data covers 7 manufacturing sites in the UK.

UK Greenhouse gas emissions and energy use data for the period 30 June 2019 to 27 June 2020

Energy consumption used to calculate emissions (kWh)	**kWh**
Total Energy Consumption (kWh)	**106,904,756**
Energy consumption break down (kWh):	
Natural gas	67,208,470
Electricity	38,714,433
Transport	433,331
Diesel	367,909
LPG	180,613

	tonnes CO2e
Scope 1 emissions in metric tonnes CO2e	
Natural gas	12,357.62
Refrigerant emissions	179.90
Diesel	93.00
LPG	38.74
Company owned/leased vehicles	18.85
Scope 2 emissions in metric tonnes CO2e	
Purchase of electricity	9,025.88
Private vehicles on company business	85.28
Total gross emissions in metric tonnes CO2e	**21,799.27**
Intensity ratio tonnes CO2e per tonne produced	**0.18**

Emission factors are based on Government published 2020 GHG conversion factors.

Finsbury Food Group – SECR Methodology Statement 2020

The SECR submission has been compiled using the 2019 HM Government Environmental Reporting Guidelines.

Emissions have been grouped according to the GHG Protocol Corporate Standard.

We have used the following data sources for the report for the:

- Energy and Fuel Data – Energy supplier billing data and electricity half hour data;
- Transport Data – Company mileage records; and
- Refrigerant Emissions – Engineering maintenance records.

CO2 emissions have been calculated using the 2020 UK Government Conversion Factors for Company Reporting.

Emissions have been calculated for the company financial year 30 June 2019 to 27 June 2020.

Directors and Officers Liability Insurance

The Company maintains a Directors and Officers liability insurance policy.

Financial Instruments

The Group's financial instruments comprise a revolving credit facility, cash and liquid resources, and various items arising directly from its operations, such as trade creditors. The main purpose of these financial instruments is to finance the Group's acquisitions and operations. It is the Group's policy that no trading in financial instruments shall be undertaken.

The bank facility is a £55.0 million revolving credit facility provided by a club of three banks – HSBC, Rabo Bank and RBS. The facility is available until February 2023 and also includes scope for the facility to be increased by up to a further £35.0 million.

The main risks arising from the Group's financial instruments are interest rate risk and liquidity risk. The Board reviews and agrees policies for managing these risks, which have remained substantially unchanged for the year under review. The policies are summarised below:

Interest Rate Risk

The facility totalling £55.0 million available, of which £36.2 million was drawn at 27 June 2020 leaving a headroom of £18.8 million plus a cash balance of £10.2 million with a further approved accordion facility of £35.0 million. The interest rate risk is managed through interest rate swap transactions. The Group has two interest rate swaps. A five-year swap from 3 July 2017 with a coverage of £20.0 million fixed at a rate of 0.455% and a three-year swap from 28 March 2019 with a coverage of £5.0 million fixed at a rate of 1.002%.

The counterparty to these transactions is HSBC Bank Plc.

Directors' Report/Continued

Foreign Exchange Risk
The Group uses forward foreign exchange contracts to manage its exposure to fluctuations in foreign currency rates. Full details are given in Note 23.

Diversity

Finsbury Food Group is committed to encouraging diversity, promoting a diverse culture where everyone is treated with respect and valued for their individual contribution and creating a work environment free of bullying, harassment, victimisation and unlawful discrimination. We have a Diversity Policy in place to ensure that selection for employment, promotion, development or any other benefit is on the basis of merit and ability and does not impact negatively upon diversity. It is a key objective to ensure that all employees are helped and encouraged to fulfil their potential.

Equal Opportunities

It is our policy to ensure equal opportunity in recruitment, selection, promotion, employee development, training and reward policies and we have an equal opportunities and diversity policy in place. It is a key objective to ensure that successful candidates for appointment and promotion are selected taking account of individual ability, skills and competencies without regard to age, gender, race, religion, disability or sexual orientation.

Involvement of Employees

Employees are key to the Company's success and we rely on a committed workforce to help us achieve our business objectives. Employees are encouraged to operate in an open environment, embracing teamwork and aligning personal development with the strategy of the business and their behaviours with Company values. We are keen to engage our employees by providing an environment where they can contribute their own ideas and challenge those of others. We are committed to involving employees and consider that good communication helps to achieve this. All sites have regular briefings, employee forums and communication mechanisms which are designed to keep colleagues informed of, amongst other things, the financial and economic factors that affect the Company's performance. Many sites also hold open days to allow employees' families to see the environment in which their family members work. We have also rolled out Workplace by Facebook across the Group to improve communication between employees, increase engagement and drive forward idea generation and sharing of good practices.

Political and Charitable Contributions

During the year charitable donations amounting to £9,000 (2019: £9,000) were made. No political donations were made.

In response to the pandemic and support needed in the local communities we provided charitable food donations to NHS and key workers as well as local care homes.

Going Concern

There have been major disruptions to markets since March 2020 as a result of the impact of the Covid-19 pandemic. Post Covid-19 consumer spending behaviour and lifestyle choices are an unknown. Since the start, the Company has been guided by clear priorities to protect employees, safeguard supply, respond to new patterns of consumer demand and to preserve cash. The response by the Company to mitigate cash outflows was swift and proportionate with prioritisation and limitation of capital expenditure, salary reductions across senior executives, use of the furlough scheme and cancellation of interim dividend. We have continued our close working relationship with our banking partners and have full support with a reset of debt: EBITDA covenant tests at 26 December 2020 and 26 June 2021. Debt levels have decreased over the year by £9.1 million to £26.5 million with a debt to adjusted EBITDA measure of 1.1x down from 1.4x at 29 June 2019.

With knowledge and experience since lockdown a bottom-up full year 2021 budget and strategic forecast to June 2023 has been compiled, challenged and sensitivities have been considered. Our supply chain and manufacturing have been robust when faced with unprecedented fluctuation in demand. Revenue trends have improved over the final quarter, with April 24% down year on year, May, 19% down and June 14% down. The Group has a debt facility to February 2023 of £55.0 million with scope for the facility to be increased by up to a further £35.0 million, providing increased capacity for the Group to explore future growth opportunities and support its long-term investment strategy and the Group has a relatively conservative level of debt to earnings. Having taken all the above factors into account the Directors believe that it remains appropriate to prepare the accounts on a Going Concern basis.

Auditors

In accordance with Section 489 of the Companies Act 2006, a resolution for the appointment of PricewaterhouseCoopers LLP as auditors is to be proposed at the forthcoming AGM.

- So far as each Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- Each Director has taken all the steps that they ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

The Directors' Report was approved by the Board of Directors on 18 September 2020 and was signed on its behalf by:

Stephen Boyd
Director