

Risk Report

The Directors recognise the need for a healthy system of internal controls and risk management. We have identified the following as the principal risks and uncertainties the Group faces.

Risk management is regarded as essential to achieve the Group's strategic and operational objectives. An annual, formal review of risks is carried out as an integral part of our strategic planning process. Each business updates its risk register and the registers are presented to the Audit Committee together with mitigating actions.

Following a preliminary recommendation by the Audit Committee, the Board reviews the highest risk items for the Group and the mitigations.

The risks considered material, how they have evolved year on year and the principal mitigating actions are:

External

01 Covid-19 Pandemic



Movement
in year

Principle Risk

The pandemic has resulted in significant changes to the retail and foodservice sectors. Consumers have changed their shopping behaviour within retail with both positive and negative implications for Finsbury's products. Foodservice volumes continue at less than half their pre-outbreak levels.

Finsbury's bakeries have easily adjusted to social distancing guidelines. The ongoing risk of the disease is absenteeism that, at elevated levels, could restrict the ability of our bakeries to meet demand.

Mitigation

Crisis team formed; meeting daily to oversee the impact of the pandemic.

The priority is and was to ensure the safety of all employees and to make rapid changes to the way the business operates by establishing safe ways of working based on social distancing and home working.

Financially the business moved to manage cash while ensuring no adverse consequential impact to our customer and supplier base.

**Commentary**

New risk with significant impact on commercial, operational and financial performance

02 Brexit



Movement
in year

Principle Risk

The risk of a no-deal Brexit is financially material. WTO tariffs will adversely affect the cost of inbound raw materials. There will also be tariffs on exported finished goods, primarily to our French subsidiary, Lightbody Europe.

The impact is likely to be inflationary and will affect all customers and competitors alike. The consequential risk is to volume loss or decline.

Mitigation

Since the referendum in 2016 the Company has decreased the amount of raw material imported from Europe and continues to work with suppliers in this regard.

Capital investment has been targeted at automation and operational efficiency.

Investment in new bakery in Poland to expand capacity for continental Europe.



Commentary

Similar to last year – hard Brexit risk and continued uncertainty, but well prepared.

03 Cyber Security



Movement
in year

Principle Risk

The exposure to random and malicious attacks from Cyber criminals always exists. Protecting key information assets is of critical importance.

Mitigation

The Audit Committee has reviewed in depth the cyber risks and mitigating actions which include:

- Maintenance of protections software and real-time back-ups;
- Independent penetration testing;
- A new Group-wide information system with standardised protection, operating requirements and security protection;
- In 2020 will migrate to a Cloud-based platform with enhanced protection as standard; and
- Training and regular communications, including warning of common frauds to be aware of.



Commentary

Increase risk offset by enhanced mitigations.

Risk Report/Continued

Operational

04 Health and Safety

**Movement
in year****Principle Risk**

Injury to employees remains an ongoing risk with potentially significant consequences.

Mitigation

Led by the H&S Committee, the Group is embedding a Homesafe Every Day Strategy.

Induction and training programmes underpinned by our Operating Principle - People who Care.

Regular Board reviews and site visits.

**Commentary**

An area of continued focus and development.

05 Business Interruption
or Fire**Movement
in year****Principle Risk**

Risk of serious injury and loss of production capacity.

An increased number of largescale losses in the bakery sector has resulted in increases in insurance premium costs and a restriction in affordable capacity. The financial exposure may well be self-insurance and partial exposure to any actual loss.

Mitigation

Continued focus on preventative measures to reduce risk including regular fire audits. Re-engineering insurance programme including an element of self-insurance.

**Commentary**

Deteriorating insurance market conditions with cost and capacity implications.

Financial

06 Pension Deficit

**Movement
in year****Principle Risk**

Changes in inflation, investment performance and demographics (life expectancy) leads to a larger deficit requiring increased Company contributions under a recovery plan.

Mitigation

Introduced Fiduciary Management Investment approach which enables scheme trustees to execute their long-term strategies efficiently and target better outcomes.

Appointed Professional Company Trustee to challenge approach and to bring knowledge from experiences with many other clients.

**Commentary**

Worsening external factors offset by positive changes.

07 Commodity and Labour Costs Pressures

**Movement
in year****Principle Risk**

Global commodity inflation and increasing volatility in addition to the Brexit risk identified above.

Continuing increases in National Living Wage.

Mitigation

Tight control of costs and mitigation where possible through price and product engineering.

Continued programme of Operating Brilliance and capital expenditure, focused on Continuous Improvement and cost reduction. All led by Group Efficiency Improvement Director.

Leverage economies of scale from the enlarged group, including Group Purchasing strategy.

People strategy focussed on staff retention by upskilling of workforce.

**Commentary**

Our Operating Principles of Operating Excellence, Cost Effectiveness and People who Care are key to continued efficient operations.