Interim Results

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On behalf of: Finsbury Food Group Plc ('Finsbury', 'the Company' or 'the Group')
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Finsbury Food Group Plc

Interim Results

Finsbury Food Group Plc (AIM: FIF), a leading UK speciality bakery manufacturer of cake, bread and morning goods for the retail and foodservice channels, is pleased to announce its unaudited interim results for the 26 weeks ended 30 December 2017.

Summary

- Group revenue of £157.8m up 0.7% (H1 2016: £156.6m) like for like*[1] up 2.5% to £144.8m.
- Group operating profit of £8.7m up 4.7% (H1 2016: £8.3m).
- Group operating profit margin of 5.5% (H1 2016: 5.3%).
- Profit*[2] before tax of £8.4m up 6.3% (H1 2016: £7.9m)
- Adjusted*[3] diluted EPS, up 4.3% at 4.8p per share (H1 2016: 4.6p per share), adjusted EPS, up 6.4% at 5.0p per share (H1 2016: 4.7p per share)
- Interim dividend per share increased 10% to 1.1p (H1 2016: 1.00p per share)
- Net debt of £16.6m reduced to 0.6 times annualised EBITDA of the Group (H1 2016: £21.0m, 0.8 times).

Strategic highlights

- New state of the art cake line now fully operational.
- High level of capital spend maintained.
- Bread and morning goods Foodservice like for like*[1] revenue up 8.2%.
- Loss-making bakery now closed with most employees having found alternative external employment.
- Winner of Quality Food Awards for a number of products.

Post period highlights

- New five year banking facility to February 2023 of £45m RCF plus £45m accordion.
- Purchase of the freehold property at Lightbody bakery for £2.6m.

*[1] *like for like revenue is the revenue from operations excluding the revenue from the closed bakeries during the first half of the current year.*

*[2] *Profit is before significant non-recurring and other items.*

*[3] *adjusted and adjusted diluted EPS have been calculated using earnings excluding the impact of amortisation of intangibles and significant non-recurring and other items as shown on the face of the Statement of Comprehensive Income. The adjusted diluted EPS and adjusted EPS have been given, as in the opinion of the Board this will allow shareholders to gain a clearer understanding of the trading performance of the Group.*

Commenting on the results, John Duffy, Chief Executive of Finsbury Food Group Plc, said:

"*Our revenue and profit growth in the period illustrates the Group's resilience to what has been a sustained period of market-wide headwinds. The investment into the business that we have implemented over this and previous years, alongside a focus on operational excellence has positioned us well and enabled us to continue to deliver robust results. This, alongside the strength of our balance sheet has underpinned our ability to increase our interim dividend.*

"The headwinds will persist into the period ahead, but we are determined to deliver against our strategic objectives and continue to drive growth both organically and through acquisition. With our resilient and diversified Group, by category, channel and geography, we are confident that we will continue to deliver steady progress in the period ahead."

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STRATEGY

Our strategic objective is to create sustainable value for our shareholders, customers and other stakeholders through our vision to build the leading speciality bakery group in the UK. We produce a broad range of high-quality bread, cake and bakery snacking products targeted at growing channels and market niches. These deliver growth and differentiation for our major customers and fulfil the needs of end consumers.

Our strategy to achieve our vision is as follows:

- Invest in our people and our manufacturing sites to form a strong foundation for us to deliver our strategy.
- Create innovative, high-quality bakery products that anticipate key market trends.
- Ensure customer and consumer needs are at the heart of our decision making.
- Develop a strong licensed brand portfolio to complement our core retailer brand relationships.
- Aim to succeed in both the retail grocery and out-of-home channels.
- Grow through a combination of organic growth and targeted acquisitions.

Our growth strategy will continue to be delivered through a combination of organic growth and targeted acquisitions. Future acquisitions will typically consolidate our market share in existing product areas or introduce further diversification into additional specialist product areas, customers and channels.

Net debt of £16.6 million at half year, equating to 0.6 times annualised EBITDA, results in a healthy balance sheet and considerable scope to invest further, develop site capabilities and participate in industry consolidation and appropriate M&A.

The Group has refinanced its current debt facilities. The new facility is a £45m revolving credit facility provided by a club of three banks - HSBC, Rabobank and RBS. The facility is on improved terms, is available for five years and also includes scope for the facility to be increased by up to a further £45m. The new facility and the potential for it to be increased further provides increased capacity for the Group to explore future growth opportunities and support its long-term investment strategy.

Our core strategy is centred on generating returns for shareholders. Adjusted diluted earnings per share are up 4.3% year on year at 4.8p per share, adjusted earnings per share is up 6.4% at 5.0p per share.

A final dividend for the year to 1 July 2017 of 2.00p per share was paid on 22 December 2017 to shareholders on the register at the close of business on 24 November 2017. This brought the total dividend for the year to 1 July 2017 to 3.00p per share.

The Board of Directors is announcing an interim dividend for the year ending 30 June 2018 of 1.1p per share (H1 2016: 1.00p per share), an increase of 10.0%. The interim dividend will be paid on 27 April 2018 to shareholders on the register at the close of business on 3 April 2018. The election deadline for participants in the Company's Dividend Re-investment Plan will be 3 April 2018.

OUTLOOK

The first half year results have been delivered despite a backdrop of commodity and exchange rate driven inflationary headwinds and consequentially challenging grocery environment. The results delivered demonstrate the benefits of our strategy and the investment implemented over prior years. Our balance sheet remains strong allowing us to continue to invest in our businesses and therefore maintain the delivery of our stated growth strategy. The broader channel, customer and product diversification achieved has created a solid platform for the business and will continue to benefit us given our access to higher growth opportunities such as the faster growing foodservice channel.

The UK grocery market continues to be challenging with food inflation becoming entrenched. As previously noted, this is a result of increased commodity prices, the adverse impact of USD and Euro exchange rates and the annual above inflation increase in the National Living wage. The Group is working hard to mitigate this input cost inflation through continued operational efficiency, investment in automation and, inevitably, price increases.

Whilst we are cognisant of the price recovery process, we expect the Group's steady performance to continue into the second half of the financial year and are confident that we have created a resilient business that can not only withstand the current headwinds but will continue to progress.

OPERATING REVIEW

UK Bakery

	H1 2017 £m	H1 2016 £m	Movement
Revenue	140.5	139.0	+1.1%
Operating profit	7.3	7.4	-0.7%
Operating margin	5.2%	5.3%	

UK Bakery comprises the supply of cake, bread and morning goods in the Grocery and Foodservice channels. Revenue in the period has increased by 1.1% to £140.5 million. Operating profit has decreased by 0.7% to £7.3 million.

The grocery ambient cake and the bread and morning goods markets are both large mature markets. The grocery ambient cake market sees year on year volume decline of -2.1% and value growth of +1.3% (Source: IRI 26 weeks ending 6th January 2018) and the bread and morning goods grocery market sees year on year volume decline of -1.3% and value growth of +2.2% (source: Kantar Worldpanel 24 weeks ending 31st December 2017).

UK Bakery Operating profit margin has decreased to 5.2% due to commodity price pressure, particularly the spike in butter prices.

The UK Bakery figures includes £13.0m (H1 2016: £15.4m) of turnover form bakeries closed during the first half of the year. Note 2 provides details on the Grain D'Or bakery closure where trading activities ceased partway through the 26 weeks to 30 December 2017.

Overseas

	H1 2017 £m	H1 2016 £m	Growth
Revenue	**17.3**	**17.6**	-2.1%
Operating profit	**1.2**	**1.0**	24.2%
Operating margin	**7.0%**	**5.5%**	

The Overseas business comprises Lightbody Europe which trades primarily in France. The business specialises in the import and sale of premium UK manufactured food products. It is an important channel into Europe for Group UK manufactured licensed celebration cake and bite style products.

The business is heavily exposed to the Euro which has had a favourable impact on translation of Euro denominated sales and profit. In Euro terms the business has performed well too and we are pleased with the operating profit performance of Overseas business.

Revenue and Operating Profit

Group revenue increased in H1 2017 by 0.7% year on year to £157.8 million. Profit before interest, tax and significant non-recurring and other items was up 4.7% to £8.7 million.

Interest Payable

Interest payable and charges on related interest rate swaps on the Group's bank debt in H1 2017 was £331,000 (H1 2016: £433,000), a decrease of £102,000. The decrease in charges is a consequence of the lower average debt balance over the period.

Taxation

The Group's effective tax rate in H1 2017 was 21.2%, which compares to 21.2% in H1 2016. The effective rates represent a blend of the UK and French corporation tax rates. There was a decrease in the UK tax rate offset by a higher proportion of profits charged at the higher French corporation tax rate.

Earnings per share

The Group considers both adjusted and adjusted diluted earnings per share to be the most appropriate EPS measure. The adjusted earnings per share were up 6.4% to 5.0p, (H1 2016: 4.7p) and adjusted diluted earnings per share were up 4.3% to 4.8p, (H1 2016: 4.6p). Further earnings per share information is given in Note 6.

FINANCIAL REVIEW

Cash flow and net debt

Cash inflow from operating profit before changes in working capital is £12.7 million, which compares with £12.0 million in H1 2016. The increase arises from some upside from organic growth in profit. Net debt at 30 December 2017 is £16.6 million which compares to £21.0 million at H1 2016 a reduction of £4.4 million. Working capital remained steady in H1 2017 (H1 2016: growth +£3.8m). The year on year improvement is driven by the exit of the loss-making business. Capital expenditure of £4.9 million driven by the phasing of spend on two major projects, the new cake line and new business IT system was incurred in H1 2017 which is £0.5 million lower than H1 2016. The cash out-flow relating to restructuring and reorganisation costs were £2.4 million in H1 2017.

Pensions

The Group has one defined benefit pension scheme within its Memory Lane Cake business in Cardiff. All remaining group companies have defined contribution schemes. The Memory Lane Cake pension scheme has been closed to future accruals and new members since 31 May 2010. The net pension deficit (before related deferred tax) is £10,498,000 at 1 July 2017, the next accounting valuation update will be carried out at 30 June 2018. Cash contributions (including the PPF levy) were £199,000 in the six months to 30 December 2017.

Principal risks and uncertainties

A number of risks and uncertainties have been identified that could potentially have a material impact on the financial position of the Group. These are set out in the Strategic Report section of the Annual Report for the year to 1 July 2017 and the Board considers these remain applicable.

Commodity price inflation and the National Living Wage legislation presents a challenge that the Group is preparing for through a number of initiatives. Adjusting and mitigating the impact will take time and will require ever-greater focus on efficiency improvements and cost reduction programmes and, ultimately, price recovery.

Forward looking statements

Throughout this report certain statements have been made which are forward looking. These statements have been made based on latest knowledge and expectations of the future. The Board considers the statements to be reasonable. Inevitably there are risks associated with these forward-looking statements which are usually outside the control of the Group. Actual results or performance may therefore differ from the outcome implied by these forward-looking statements.

Consolidated Statement of Comprehensive Income (unaudited)

	Note	**Unaudited 26 weeks ended 30 December 2017**	Unaudited 26 weeks ended 31 December 2016	Audited 52 weeks ended 1 July 2017
		£'000	£'000	£'000
Revenue		**157,787**	156,619	314,296
Cost of sales		**(110,292)**	(108,401)	(216,493)
Gross profit		**47,495**	48,218	97,803
Administrative expenses		**(38,788)**	(39,899)	(80,368)
Results from operating activities		**8,707**	8,319	17,435
Finance expense	5	**(331)**	(433)	(877)
Share of losses of associates after tax		**(11)**	(15)	(22)
Profit before taxation		**8,365**	7,871	16,536
Taxation		**(1,772)**	(1,673)	(3,578)
Profit after tax before significant non-recurring and other items		**6,593**	6,198	12,958

Significant non-recurring and other items - finance

income/(expense):				
Defined benefit pension scheme - net finance expense	5	**-**	-	(204)
Movement in fair value swaps	5	**11**	461	555
Significant non-recurring and other items - net finance income/(expense)		**11**	461	351
Significant non-recurring and other items - other:				
Restructuring, reorganisation and impairment costs	2	**(9,683)**	-	(4,000)
Movement in fair value of foreign exchange contracts		**88**	13	(71)
Defined benefit pension scheme - administration costs		**-**	-	200
Significant non-recurring and other items - other		**(9,595)**	13	(3,871)
Taxation relating to significant non-recurring and other items		**1,691**	(85)	619
Total significant non-recurring and other items		**(7,904)**	389	(2,901)
(Loss)/profit for the period after significant non-recurring and other items		**(1,300)**	6,587	10,057
Other comprehensive income				
Actuarial loss on defined benefit pension scheme net of deferred taxation		**-**	-	(3,410)
Other comprehensive income, net of income tax		**-**	-	(3,410)
Total comprehensive income		**(1,300)**	6,587	6,647
(Loss)/Profit attributable to:				
Equity holders of the parent		**(1,810)**	6,145	9,048
Non-controlling interest		**510**	442	1,009
(Loss)/Profit for the financial period		**(1,300)**	6,587	10,057
Total comprehensive income attributable to:				
Equity holders of the parent		**(1,810)**	6,145	5,638
Non-controlling interest		**510**	442	1,009
Total comprehensive income for the period		**(1,300)**	6,587	6,647

Consolidated Statement of Financial Position (unaudited)

	Note	**Unaudited 30 December 2017 £000**	Unaudited 31 December 2016 £000	Audited 1 July 2017 £000
Non-current assets				
Intangibles		**81,965**	77,327	80,302
Property, plant and equipment		**47,446**	52,463	48,857
Investments in equity accounted investees		**258**	196	269
Other financial assets		**28**	28	28
Deferred tax assets		**5,158**	3,344	4,063
		134,855	133,358	133,519
Current assets				
Inventories		**13,257**	14,874	12,684
Trade and other receivables		**50,832**	50,387	50,018
Cash and cash equivalents	7	**4,106**	4,777	3,024
Other financial assets - fair value of foreign exchange contracts		**490**	321	560
		68,685	70,359	66,286
Total assets		**203,540**	203,717	199,805
Current liabilities				
Other interest bearing loans and borrowings	7	**(16,315)**	(18,394)	(14,586)
Trade and other payables		**(61,831)**	(62,972)	(60,461)
Provisions		**(6,621)**	(119)	(18)
Other financial liabilities - interest rate swaps/ fair value of foreign exchange contracts		**(65)**	(5)	(234)
Current tax liabilities		**(1,093)**	(1,482)	(1,650)
		(85,925)	(82,972)	(76,949)
Non-current liabilities				
Other interest-bearing loans and borrowings	7	**(4,353)**	(7,271)	(5,800)
Provisions and other liabilities		**(211)**	(132)	(221)
Deferred tax liabilities		**(1,278)**	(1,557)	(1,335)
Pension fund liability		**(10,498)**	(6,463)	(10,498)
		(16,340)	(15,423)	(17,854)
Total liabilities		**(102,265)**	(98,395)	(94,803)
Net assets		**101,275**	105,322	105,002
Equity attributable to equity holders of the parent				
Share capital	8	**1,304**	1,304	1,304

Share premium account	**64,956**	64,956	64,956
Capital redemption reserve	**578**	578	578
Employee share reserve	**(3,282)**	(3,783)	(3,585)
Retained earnings	**35,322**	40,242	39,862
Total shareholders' equity	**98,878**	103,297	103,115
Non-controlling interest	**2,397**	2,025	1,887
Total equity	**101,275**	105,322	105,002

Consolidated Statement of Changes in Equity (unaudited)

	Share capital £000	Share premium £000	Capital redemption reserve £000	Employee share reserve £000	Retained earnings £000	Non-controlling interest £000	Total equity £000
Balance as at 2 July 2016	1,304	64,956	578	(3,920)	36,569	1,583	101,070
Profit for the 26 weeks ended 31 December 2016	-	-	-	-	6,145	442	6,587
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	-	**6,145**	**442**	**6,587**
Transactions with owners, recorded directly in equity:							
Own shares acquired	-	-	-	137	(137)	-	-
Foreign exchange differences	-	-	-	-	40	-	40
Dividends paid	-	-	-	-	(2,375)	-	(2,375)
Balance as at 31 December 2016	**1,304**	**64,956**	**578**	**(3,783)**	**40,242**	**2,025**	**105,322**
Profit for the 26 weeks ended 1 July 2017	-	-	-	-	2,903	567	3,470
Other comprehensive income/(expense):							
Remeasurement on defined benefit pension	-	-	-	-	(4,031)	-	(4,031)
Deferred tax movement on pension scheme remeasurement	-	-	-	-	621	-	621
Other comprehensive income	-	-	-	-	**(3,410)**	-	**(3,410)**
Total comprehensive income for the period	-	-	-	-	**(507)**	**567**	**60**
Transactions with owners, recorded directly in equity:							
Own shares acquired	-	-	-	198	(21)	-	177
Impact of share based payments	-	-	-	-	1,240	-	1,240
Deferred tax on share options	-	-	-	-	47	-	47
Foreign exchange differences	-	-	-	-	131	-	131
Dividends paid	-	-	-	-	(1,270)	(705)	(1,975)
Balance as at 1 July 2017	**1,304**	**64,956**	**578**	**(3,585)**	**39,862**	**1,887**	**105,002**
(Loss)/Profit for the 26 weeks ended 30 December 2017	-	-	-	-	(1,810)	510	(1,300)
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	-	**(1,810)**	**510**	**(1,300)**
Transactions with owners, recorded directly in equity:							
Own shares issued/(acquired)	-	-	-	303	(218)	-	85
Foreign exchange differences	-	-	-	-	41	-	41
Dividends paid	-	-	-	-	(2,553)	-	(2,553)
Balance as at 30 December 2017	**1,304**	**64,956**	**578**	**(3,282)**	**35,322**	**2,397**	**101,275**

Consolidated Cash Flow Statement (unaudited)

	Note	**Unaudited 26 weeks ended 30 December 2017 £000**	Unaudited 26 weeks ended 31 December 2016 £000	Audited 52 weeks ended 1 July 2017 £'000
Cash flows from operating activities				
(Loss)/profit after taxation for the period		**(1,300)**	6,587	10,057
Adjustments for:				
Taxation		**81**	1,758	2,959
Finance expenses	5	**320**	(28)	526
Share of losses of associates after tax		**11**	15	22
Depreciation		**3,694**	3,363	6,948
Amortisation of intangibles		**269**	268	537
Significant non-recurring expenses		**9,683**	-	4,000
Movement in fair value foreign exchange contracts		**(88)**	(13)	71

Contributions by employer to pension scheme	**-**	-	(200)
Operating profit before changes in working capital	**12,670**	11,950	24,920
Changes in working capital			
Increase in inventories	**(574)**	(2,273)	(39)
Increase in trade and other receivables	**(343)**	47	153
Increase in trade and other payables	**918**	(1,590)	(2,566)
Cash generated from operations	**12,671**	8,134	22,468
Interest paid	**(323)**	(439)	(892)
Corporation taxes paid	**(1,789)**	(1,336)	(2,650)
Net cash generated from operating activities	**10,559**	6,359	18,926
Cash flows from investing activities			
Purchase of property, plant & equipment	**(4,874)**	(5,325)	(12,542)
Costs associated with closure of operations	**(2,425)**	-	-
Investment in Associate	-	-	(80)
Net cash used in investing activities	**(7,299)**	(5,325)	(12,622)
Cash flows from financing activities			
Repayment of bank loans	**(1,468)**	(1,468)	(2,937)
Drawdown of revolving credit	**2,500**	5,000	-
(Repayment)/drawdown of invoice discounting	**(749)**	(373)	822
(Repayment) of asset finance facilities	**(33)**	(95)	(133)
Options exercised	**85**	-	177
Non-controlling interest dividend paid	**-**	-	(705)
Dividend paid to shareholder	**(2,553)**	(2,375)	(3,645)
Net cash (out)/in from financing activities	**(2,218)**	689	(6,421)
Net increase/(decrease) in cash and cash equivalents	**1,042**	1,723	(117)
Opening cash and cash equivalents	**3,024**	3,024	3,024
Effect of exchange rate fluctuation	**40**	30	117
Cash and cash equivalents at end of the period	**4,106**	4,777	3,024

NOTES TO THE FINANCIAL STATEMENTS

1) BASIS OF PREPARATION

This interim report, which is unaudited, does not constitute statutory accounts within the meaning of section 434(3) of the Companies Act 2006. The comparative figures for the financial year ended 1 July 2017 have been extracted from the statutory accounts for that year. Those accounts, which were prepared in accordance with International Financial Reporting Standards as adopted by the EU ("adopted IFRSs"), have been reported on by the company's auditor and delivered to the registrar of companies. The report of the auditor was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

It should be noted that current liabilities exceed current assets. Having reviewed the Group's short and medium-term plans and available financial facilities, the Board has reasonable expectations that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group has stayed within its banking facilities during the period, meeting covenant requirements. The Group in February 2018 signed a new facility of £45m revolving credit facility plus scope for the facility to be increased by up to a further £45m. In addition, the Group has a strong trade debtor book and strong asset backing, further strengthened by the purchase of its freehold bakery property in Hamilton in Scotland on 28 February 2018. Accordingly, the Board continues to adopt the going concern basis in preparing the Financial Statements.

2) SIGNIFICANT NON-RECURRING ITEMS

The Group presents certain items as non-recurring and significant. These relate to items which, in management's judgement, need to be disclosed by virtue of their size or incidence in order to obtain a more meaningful understanding of the financial information.

A decision was made on the 23 August 2017 to close the Grain D'Or bakery based in London. The company had implemented a range of initiatives to improve the business including strict cost controls and new working practices. Despite this Grain D'Or continued to incur operating losses. Grain D'Or traded in a particularly competitive environment which created strong competition for contracts. Together with cost pressures being experienced across the industry, Grain D'Or lost two large contracts after the financial year ending 1 July 2017 further impacting on the financial performance. Formal consultations to close the bakery were concluded and closure was completed in early December 2017.

The Group also closed its much smaller Campbells bakery in Twechar, Scotland in October 2017 following employee consultation. A rationalisation program had decreased the volumes considerably at the bakery and the overhead cost of running a small remote bakery was not sustainable in today's competitive market. These closures fit with the Company's strategy of focusing investment behind profitable product niches to drive long term market growth and value within specialty bakery.

The turnover from those operations was £12,995,000 in H1 2017, (H1 2016: £15,360,000), the Company has included in its half year results costs of £9,683,000 relating to restructuring and re-organisation resulting from the closures. The net cash out-flow relating to these costs was £2,425,000 during the six months to 30 December 2017. The negotiations relating to the cost of exiting of the Grain D'OR bakery are ongoing.

During the second half of the year ended 1 July 2017 an impairment of £4,000,000 was taken against the assets of Grain D'Or.

3) SEGMENT INFORMATION

Operating segments are identified on the basis of the internal reporting and decision making. The Group's Chief Operating Decision Maker is deemed to be the Board as it is primarily responsible for the allocation of resources to segments and the assessment of performance by segment. The Board assesses profit performance principally through adjusted profit measures consistent with those disclosed in the Annual Report and Accounts.

The UK Bakery segment manufactures and sells bakery products to UK grocery and food service sectors. It comprises six subsidiaries all of which manufacture and supply food products through the channels described above. These subsidiaries have been aggregated into one reportable segment as they share similar economic characteristics. The economic indicators considered are the nature of the products and production process, the type and class of customer, the method of distribution and the regulatory environment.

The European segment procures and sells bakery products to European grocery and food service sectors.

Reportable Segments	**26 weeks to 30 December 2017**	**26 weeks to 31 December 2016**
	£000	£000
	Total	Total
Revenue UK Bakery	**140,512**	138,973
Revenue Overseas	**17,275**	17,646
Total revenue	**157,787**	156,619
Adjusted operating profit UK Bakery	**7,326**	7,378
Adjusted operating profit Overseas	**1,202**	968
Adjusted operating profit Group	**179**	(27)
Total adjusted operating profit	**8,707**	8,319

The Group has two customers (2016: two) which individually account for more than 10 per cent of the Group's total revenue. These customers account for 18 per cent and 14 per cent respectively. In the prior year these same two customers accounted for 20 per cent and 13 per cent respectively of the revenue in the six months to 31 December 2016.

In addition to the Europe sales disclosed in Reportable Segments, the Group also made sales to European markets through UK based organisations.

4) SHARE BASED PAYMENTS

The Group operates both approved and unapproved share option schemes. Following the adoption of IFRS2 'Share-based payments' charges have been made to the Income Statement to reflect the calculated fair value of employee share options. The cost is calculated at the date of grant and is charged equally over the vesting period. The fair value is based on the best available estimate of the number of options expected to vest. The corresponding adjustment is made to reserves.

During the 26 weeks to 30 December 2017 1,652,817 options were granted (H1 2016: 1,462,095).

Administration costs include a charge in the first six months of £122,000 (H1 2016: £137,000) in relation to the fair value of share options.

5) FINANCE INCOME AND EXPENSES

	Unaudited 26 weeks ended 30 December 2017 £'000	Unaudited 26 weeks ended 31 December 2016 £'000	Audited 52 weeks ended 1 July 2017 £'000
Change in fair value of interest rate swaps	**11**	461	555
Bank interest receivable	**-**	-	-
Finance income	**11**	461	555
Net interest on net pension position	**-**	-	(204)
Net bank interest payable	**(318)**	(364)	(752)
Charge on interest rate swaps	**(13)**	(69)	(125)
Change in fair value of interest rate swaps	**-**	-	-
Finance expense	**(331)**	(433)	(1,081)
Net finance income/(expense)	**(320)**	28	(526)

The Group has one interest rate swap arrangement for £20.0 million for five years from 3 July 2017 at 0.455% maturing 3 July 2022 to hedge its risks associated with interest rate fluctuations.

These arrangements do not meet the conditions necessary for hedge accounting to be applied and, therefore, changes in their fair value are recognised immediately in the income statement resulting in a credit of £11,000 (H1 2016: credit £461,000).

6) EARNINGS PER ORDINARY SHARE

Basic earnings per share for the period is calculated on the basis of profit for the period after tax, divided by the weighted average number of shares in issue of 127,467,000 (31 December 2016: 126,874,000).

Basic diluted earnings per share for the period is calculated by adjusting the weighted average number of shares in issue to assume conversion of all potential dilutive ordinary shares, which for 30 December 2017 is 131,942,000 (31 December 2016: 130,497,000).

An adjusted earnings per share has also been calculated as, in the opinion of the Board, this will allow shareholders to gain a clearer understanding of the trading performance of the Group.

The adjusted earnings per share exclude amounts shown under significant and non-recurring items in the Consolidated Statement of Comprehensive Income and exclude amortisation of intangibles.

		26 weeks to 30 Dec 2017	26 weeks to 31 Dec 2016
Profit			
(Loss)/Profit attributable to equity holders of the Company (basic)	£000	**(1,810)**	6,145
Significant non-recurring and other items	£000	7,893	(389)
Amortisation of intangibles	£000	269	268
Numerator for adjusted earnings per share calculation (adjusted basic)	£000	**6,352**	6,024

Shares		Basic	Diluted	Basic	Diluted
Weighted average number of ordinary shares in issue during the period	'000	127,467	127,467	126,874	126,874
Dilutive effect of share options	'000	-	4,475	-	3,623
		127,467	**131,942**	126,874	130,497
Earnings per share					
Basic and diluted	Pence	**(1.4)**	**(1.4)**	4.8	4.7
Adjusted basic and adjusted diluted	Pence	**5.0**	**4.8**	4.7	4.6

7) ANALYSIS OF NET DEBT

	Unaudited 26 weeks ended 30 December 2017 £'000	Unaudited 26 weeks ended 31 December 2016 £'000	Audited 52 weeks ended 1 July 2017 £'000
Net cash at bank	**4,106**	4,777	3,024
Loans within one year	**(5,437)**	(7,937)	(2,937)
Loans after more than one year	**(4,389)**	(7,325)	(5,857)
Invoice discounting within one year	**(10,897)**	(10,451)	(11,646)
Asset finance within one year	**(24)**	(71)	(57)
Asset finance after more than one year	**-**	(24)	-
Net bank debt excluding unamortised transaction costs	**(16,641)**	(21,031)	(17,473)
Unamortised transaction costs:			
within one year	**43**	65	54
more than one year	**36**	78	57
Total unamortised transaction costs	**79**	143	111
Bank debt net of unamortised transaction costs within one year	**(12,209)**	(13,617)	(11,562)
Bank debt net of unamortised transaction costs more than one year	**(4,353)**	(7,271)	(5,800)
Bank debt net of unamortised transaction costs	**(16,562)**	(20,888)	(17,362)

8) SHARE CAPITAL

No shares were issued during the period or the comparative prior year period.

At 30 December 2017 2,704,030 shares (2016: 3,360,030) were held by the Finsbury Food Group Plc Employee Benefit Trust.

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