Directors' Report

Background

The Group is a speciality bakery group which is focused on premium, celebration and wellbeing 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 2 to 41.

Dividend

The dividend was reinstated during the year. For the full year to 26 June 2021 a dividend of 2.40p per share was paid on 21 December 2021 to shareholders on the register at the close of business on 26 November 2021.

An interim dividend for the year ending 2 July 2022 of 0.83p per share (2021: nil) was paid on 21 April 2022 to shareholders on the register at the close of business on 25 March 2022.

The Board of Directors is recommending a final dividend for the year ending 2 July 2022 of 1.67p per share, taking the full year dividend to 2.50p per share (2021: 2.40p). The final dividend will be paid on 21 December 2022 to shareholders on the register at the close of business on 25 November 2022. The election deadline for participants in the Company's Dividend Re-investment Plan will be 30 November 2022.

Directors and their Interests in the Company

The Directors and brief biographies are detailed on pages 48 and 49.

In accordance with the Articles of Association, Bob Beveridge and Marnie Millard retire by rotation and being eligible offer themselves for re-election at the Company's forthcoming AGM. In addition, as Ray Duignan has served on the board for the past nine years, he retires and offers himself up for re-election at the AGM and will do so annually from this year while he remains a Director of the Company. The Board conducted a formal assessment in 2022 and concluded that Ray remains independent.

The beneficial interests of the Directors in the ordinary shares of the Company on 2 July 2022 and 26 June 2021 are set out below:

Ordinary Shares	**2 July 2022**	26 June 2021
P Baker	**96,817**	96,817
R Beveridge	**14,000**	14,000
S A Boyd	**1,280,057**	1,195,543
J G Duffy	**2,738,246**	2,617,592
M J Millard	**9,701**	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 2 July 2022.

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 26 to the Financial Statements.

Substantial Interests

The following substantial interests (3% or more) in the Company's issued share capital have been notified to the Company as at 2 September 2022:

	Number of shares	**% shareholding**
Ruffer (London)	25,112,500	19.26
FIL Investment International (London)	13,346,766	10.24
Investec Wealth & Investment (London)	11,386,281	8.73
Premier Miton Investors (London)	8,489,675	6.51
Finsbury Food Group Plc Employee Benefit Trust (UK)	7,385,992	5.66
Janus Henderson Investors (London)	5,100,000	3.91
Interactive Investor (Glasgow)	4,907,922	3.76
Hargreaves Lansdown Asset Mgt (Bristol)	4,236,404	3.25
DBAY Advisors (Douglas)	4,025,000	3.09

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. 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 2 July 2022. The data covers seven manufacturing sites in the UK.

UK Greenhouse Gas Emissions and Energy Use Data

Energy consumption used to calculate emissions (kWh)	**53 weeks ending 2 July 2022 kWh**	52 weeks ending 26 June 2021 kWh
Total Energy Consumption (kWh)	**108,496,995**	102,577,469
Energy consumption break down (kWh):		
Natural gas	**70,078,064**	69,487,690
Electricity	**37,712,271**	32,624,756
Transport	**302,320**	162,423
Diesel	**404,340**	149,094
LPG	**-**	153,506
	Tonnes CO_2e	**Tonnes CO_2e**
Scope 1 emissions in metric tonnes CO_2e		
Natural gas	**12,767.52**	12,747.99
Refrigerant emissions	**344.30**	497.37
Diesel	**109.17**	37.69
LPG	**-**	32.96
Company owned/leased vehicles	**5.76**	10.43
Scope 2 emissions in metric tonnes CO_2e		
Purchase of electricity	**7,292.80**	7,463.49
Scope 3 emissions in metric tonnes CO_2e		
Private vehicles on Company business	**68.96**	30.89
Total gross emissions in metric tonnes CO_2e	**20,588.51**	20,820.82
Intensity ratio tonnes CO_2e per tonne produced	**0.17**	0.19
Electricity purchased through supplier REGO cert.	**7,292.80**	2,160.00
Total net emissions in metric tonnes CO_2e	**13,295.71**	18,660.82
Intensity ratio tonnes CO_2e per tonne produced	**0.11**	0.17

Emission factors are based on Government published 2021 GHG conversion factors.

The actions taken to reduce our energy consumption is covered under our Responsibility Strategic Pillar on pages 22 to 23.

Task Force for Climate-Related Financial Disclosure (TCFD)

The first mandatory period for reporting will be FY23. In preparation for this, below is a review of requirements and our current position. The proposal is to expand disclosures for the FY22 report.

Preparations for TCFD

Governance

Our approach to sustainability (including climate change) is monitored by the Group Executive Committee. A number of the Group Executive Committee are part of the Sustainability Forum and the activities of the Sustainability Forum are governed by the Group Operations Forum. Both the Sustainability Forum and the Operations Forum are comprised of a number of leaders across various areas of the business to ensure that this is not purely operationally focused but is driving improvement across the whole of the business.

The day-to-day management and coordination of activities in relation to climate change risk is carried out by the HSE and Risk Director.

To further support the direction of sustainability, a Group Energy and Sustainability Manager was introduced to the business in April 2022.

Strategy

In FY22 we introduced a clear 'Sustainable Approach' strategy that is linked to reducing the risk to the business due to the effects of climate change. The strategy was created in consultation with multiple stakeholders within the business and is passed to all bakeries within the organisation to assess their current status versus the to be status. All sites have built action plans in relation to the Sustainable Approach strategy. Progress on these plans will be monitored primarily via the Group Sustainability Forum (which meets four times a year).

Risk Management

The identification and management of environmental risk (including climate change) currently follows the Group risk-management process. A Risk Owners Group has been established, comprised of a number of subject matter experts who identify risks and opportunities, assess impact to the business and also ensure that emerging risks are considered which may impact the Group in the future.

The Group Risk Register has been adapted to identify risks that are likely to be, or are currently impacted by climate change.

The priority for the upcoming year will be to conduct climate change scenario modelling to understand the implications of climate change risk to ensure more proactive responses to extreme climate change events.

The outputs from this group are provided to the Group Risk Steering Committee and the Group Audit Committee.

Metrics and Targets

A number of metrics and targets have been established within the business in relation to climate change. We have undertaken an assessment using the principles of the Science Based Targets initiative and we aim to reduce our Scope 1 and Scope 2 targets by 58.8% by 2030 from a 2016 base year.

A further priority for next year will be starting to establish a Scope 3 baseline and target improvements.

Furthermore, we will be establishing a Suppliers Sustainability Forum to link and share best practice across our supply chain.

Directors' and Officers' Liability Insurance

The Company maintains a Directors and Officers' liability insurance policy that has been in force throughout the year and at the year end.

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.

A new bank facility was agreed in June 2022 of £60.0 million revolving credit facility provided by a club of three banks – HSBC, Barclays and RBS. The facility is available on a four plus one-year term until June 2027 and also includes scope for the facility to be increased by up to a further £60.0 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 £60.0 million available of which £27.9 million was drawn at 2 July 2022 leaving a headroom of £32.1 million plus a cash balance of £7.4 million with a further approved accordion facility of £60.0 million. The interest rate risk is managed through interest rate swap transactions. The Group had two swaps mature during the year and has one forward-dated interest rate swap commencing 3 July 2022 maturing 10 June 2027 with a coverage of £10.0 million fixed at a rate of 2.589%. The counterparty to this transaction is HSBC Bank Plc.

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 24.

Liquidity Risk

Short-term flexibility is available through the existing bank facilities and the netting off of surplus funds. The Group has a £60.0 million RCF facility, the facility utilised at the balance sheet date was £27.9 million giving £32.1 million headroom plus a further £60.0 million accordion. Full details are given in Note 24.

Directors' Report/Continued

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 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 £4,000 (2021: £4,000) were made. No political donations were made.

Going Concern

The Group has delivered a resilient trading performance and achieved record revenues against a continued challenging backdrop in an unprecedented period of inflation, political instability, a contracting UK economy and Ukraine conflict adversely impacting labour availability and input prices and supply. Forecasts have been built on a bottom-up basis and stress tested to prepare a forecast to be used as a basis for reviewing going concern; forecast assumptions have been critically assessed and financial forecasts have been compared against historical performance to understand the movements. The Board, having reviewed the Group's short and medium-term plans and new financing arrangements from June 2022 to June 2027, has reasonable expectations that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group has stayed comfortably within its banking facilities during the period, meeting covenant requirements and has full support of our banking partners with a renewed facility and increase in headroom on the debt:EBITDA covenant test.

The Group has a £60.0 million revolving credit facility plus scope for the facility to be increased by up to a further £60.0 million, which are committed until June 2027. In addition, the Group has a strong trade debtor book and strong asset backing. Accordingly, the Board continues to adopt the going concern basis in preparing the Financial Statements. Debt levels have increased over the year by £7.5 million to £20.6 million, with a debt to adjusted EBITDA measure of 0.7x up from 0.5x at 26 June 2021 well within the 3.0x maximum.

Independent Auditors

In accordance with Section 148 of the Companies Act 2006, a resolution for the appointment of PricewaterhouseCoopers LLP as auditors is to be proposed at the forthcoming AGM.

Disclosure of Information to Auditors

- 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 auditors are aware of that information.

The Directors' Report was approved by the Board of Directors on 23 September 2022 and was signed on its behalf by:

Stephen Boyd
Director