Finsbury
Food Group Plc

Baking brilliance makes every day special

Annual Report & Accounts 2018

Strategic Report
Highlights

The Group has achieved a stable and resilient trading performance, growing like for like sales and adjusted profit year on year, and reducing net debt. We have achieved this despite cost inflation and a volatile retail environment.

Highlights

These figures are for the 52 weeks ended 30 June 2018 and 52 weeks ended 1 July 2017 unless stated otherwise.

Adjusted Operating Profit

	2018 £000	2017 £000
Results from operating activities	**5,237**	13,564
Significant non-recurring items – SNR (refer to Note 4 for detail)	**13,067**	4,000
Difference between defined benefit pension scheme charges and cash cost	**(411)**	(200)
Movement in the fair value of foreign exchange contracts	**(49)**	71
Adjustments SNR and other items	**12,607**	3,871
Adjusted results from operating activities	**17,844**	17,435

Adjusted Profit Before Tax

	2018 £000	2017 £000
Profit before tax	**4,475**	13,038
Significant non-recurring items – SNR (refer to Note 4 for detail)	**13,067**	4,000
Difference between defined benefit pension scheme charges and cash cost	**(134)**	4
Movement in the fair value of interest rate swaps	**(143)**	(555)
Movement in the fair value of foreign exchange contracts	**(49)**	71
Adjustments SNR and other items	**12,741**	3,520
Adjusted profit before tax	**17,216**	16,558

Adjusted operating profit and profit before tax exclude significant and non-recurring and other items as shown in the tables above and includes amortisation of intangibles. The adjusted operating profit has 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.

Adjusted diluted EPS has been calculated using earnings, amortisation of intangibles, significant non-recurring and other items as shown in the tables above. Other than significant non-recurring items the adjustments to EPS reflect non-cash items including amortisation of intangibles, as in the opinion of the Board this will allow shareholders to gain a clearer understanding of the underlying trading performance of the Group.

Group Performance Measures

Group Revenue[1]
£290.2m
↑ 2.4% on a like for like basis

Adjusted EBITDA
£25.6m
↑ 2.7%

Adjusted Operating Profit
£17.8m
↑ 2.3%

Adjusted Profit before Tax
£17.2m
↑ 4.0%

Adjusted EPS
10.2p
↑ 4.1%

Capital Investment
£12.6m
← In line

Net Debt
£15.6m
↓ 10.5%

Total Dividend
3.3p
↑ 10.0%

Statutory Measures

Group Revenue
£303.6m
↓ 3.4%

EBITDA
£13.0m
↓ 38.3%

Operating Profit
£5.2m
↓ 61.4%

Profit before Tax
£4.5m
↓ 65.7%

Basic EPS
1.7p
↓ 76.1%

The Group uses Alternative Performance Measures (APMs) which are non-IFRS measures to monitor performance of its operations and of the Group as a whole. These APMs along with their definitions and reconciliations to IFRS measures are provided in the tables on the previous page, narrative below and the tables in the Financial Review Section.

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

To view our Annual Report online visit finsburyfoods.co.uk/investor-relations/annual-reports

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Chairman's Statement

We have demonstrated our resilience in a changing market, and an ability to adjust to keep our strategy on track.

£290.2m

Excluding the revenue associated with the closed bakeries, sales grew by 2.4%.

£25.6m

Adjusted EBITDA £25.6 million up 2.7% from last year's EBITDA of £24.9 million.

£17.2m

Adjusted Profit Before Tax of £17.2 million, up 4.0% on last year when excluding significant non-recurring and other items.

3.3p

The dividend per share of 3.3p per share is up 10% on last year's dividend of 3.0p per share.

Chairman's Statement

"We continue to build a Group of scale, but one that can deal with the manufacturing complexity and flexibility required for premium and higher-margin products."

The overall story from the year is one of a stable trading performance by the Group, delivered in the face of unprecedented cost inflation of commodity inputs, especially butter. We have achieved a like for like top-line and an underlying bottom-line growth despite this cost pressure, and in a rapidly changing market. This not only demonstrates our resilience, but also that we have the operational abilities to adjust, keep our strategy on track, and achieve the financial performance expected by our investors.

Revenues were up 2.4%, which excludes revenues from our closed loss-making Grain D'Or factory. Including this, Group revenues are down 3.4%. Profit before tax is £4.5 million, reflecting significant one-off closure costs, but is 4.0% up on last year on an adjusted basis. Cash generated from operations increased by 19.8% to £26.9 million, due to the strong underlying performance, and net debt is further reduced to 0.6 times EBITDA. We have also announced a growth in the dividend. The final dividend per share of 2.2p will take the total dividend for the year to 3.3p per share, up 10% from last year's dividend of 3.0p per share.

There were no changes to the Board of Directors during the year. The Board has adopted the Quoted Companies Alliance Code and we explain our compliance in the Corporate Governance Report.

The Vision Remains the Same

Our vision is to be a leading speciality bakery group, producing a broad range of high-quality products that deliver growth and differentiation for our customers, while fulfilling the needs of end consumers, both in the UK and into Europe.

We continue to build a Group of scale, but one that can deal with the manufacturing complexity and flexibility required for premium and higher-margin products. For ten years we've been doing this while improving margins and efficiency, reducing debt and improving diversification. We believe scale will become increasingly important in the food manufacturing sector as we see our main customers getting larger.

The bakery sector, outside of sliced bread, is reasonably unconsolidated. Over the years we have made major acquisitions and investments, targeting or evolving opportunities based on consumer trends, market niches, growing channels and added-value products that retail and foodservice customers are trying to develop.

Through a combination of organic growth and targeted acquisitions, we will continue to invest to consolidate and grow in existing areas, such as round cake and artisan bread, and expand into new areas. To this end, our successful investment programme will continue. We will invest to expand our capabilities in new product formats, and to diversify into new channels such as foodservice cake, and into healthier style products, particularly 'Free From'. We have further strengthened our capabilities, with the acquisition of Free From baker Ultrapharm after the year end.

The Group has increased in scale, and the individual businesses benefit from this. A lot of work has gone into creating a structure that enables Group-wide cost-effectiveness and allows innovation, common process and best practice to flourish.

Stability in a Changing Market

Markets, channels and customers are consolidating rapidly in response to changing consumer shopping and 'on-the-move' consumption behaviour – Tesco and Booker, Amazon and Whole Foods, Co-op and Nisa, the plans of Sainsbury's and Asda – each pairing demonstrates a changing market environment, to which we can add discounter and online shopping growth. In addition to adapting to these changes, bakers and other food producers have faced commodity price increases, with the weaker pound and the cost of butter rocketing.

We believe Finsbury is increasingly well positioned to respond to this fast-changing environment, due to our continuing focus on operating excellence, quality and innovation, and cost effectiveness, combined with our sustainable approach and our commitment to our partners, all underpinned by people who care. We have and continue to invest to manage the risks and grasp the opportunities available for scale manufacturers.

Operational Highlights

Some years ago, we may have struggled to cope with the degree of volatility and unexpected cost increases we have seen of late. However, our diversification over prior years has ensured we are in a healthy position, and able to capitalise on opportunities available to us.

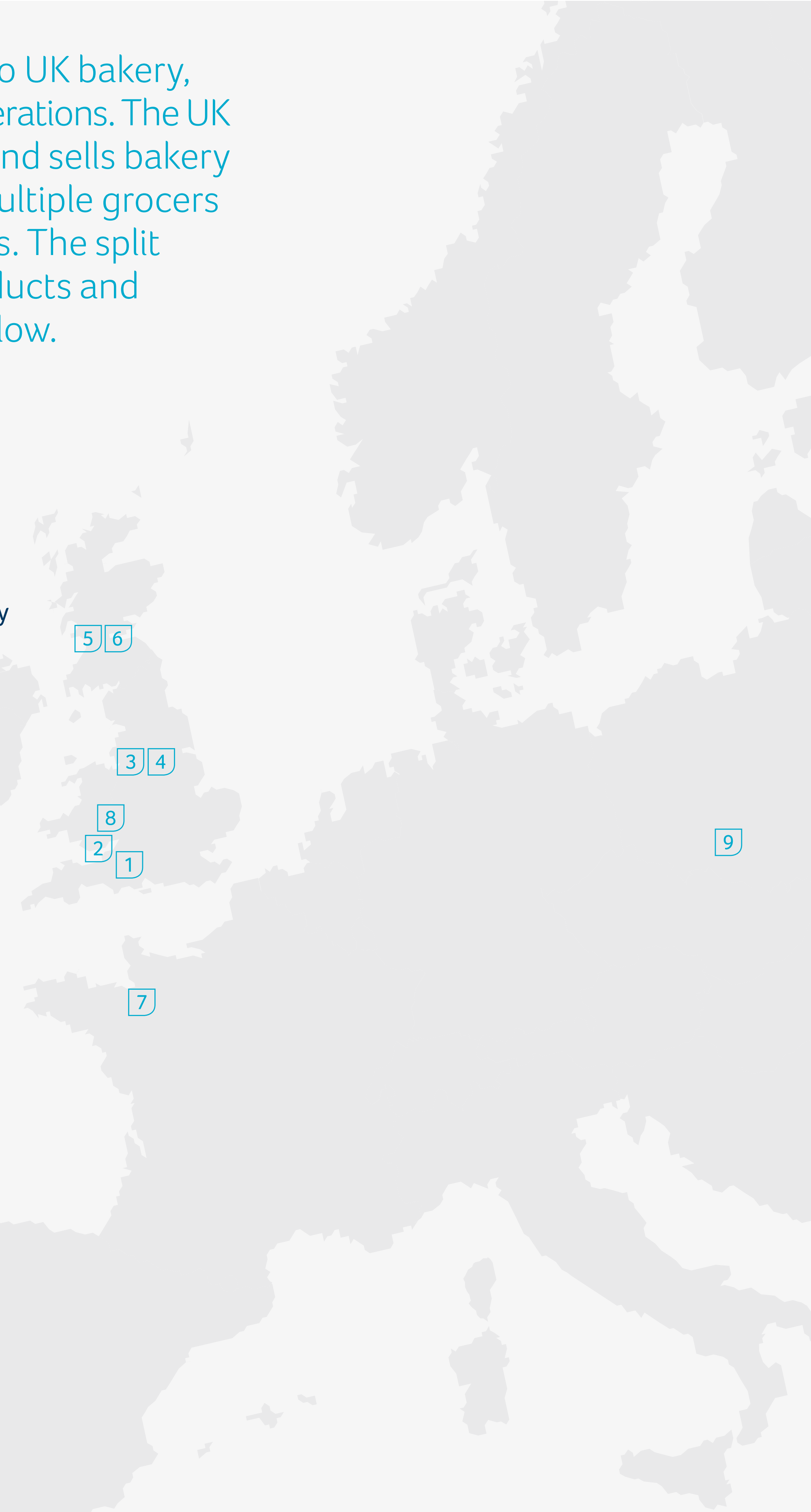
We continued to invest heavily in capital this year, at 1.8 times depreciation, which has enabled us to implement key projects such as our 'automated craft' cake line, now fully commissioned and operational in Cardiff, and introduce our new business-wide IT platform.

These sorts of change management projects, often Group-wide, do add a lot of pressure to the workload of our employees. As does new operational equipment, or worries over, for example, the decision to close our loss-making Grain D'Or factory. Much of this added pressure is often on top of the commitment people already put in to simply doing their jobs well. For this I would like to thank all employees once again for their sterling efforts and commitment during the year.

Peter Baker
Non-Executive Chairman
14 September 2018

Our Business

Our business is split into UK bakery, Overseas and Group operations. The UK bakery manufactures and sells bakery products to the UK's multiple grocers and foodservice sectors. The split of manufacturing, products and customers is shown below.



Manufacturing

Finsbury Food Group includes six manufacturing facilities and bakery companies, and one distribution company, plus the newly acquired Ultrapharm Group:

1 **Salisbury**
Nicholas & Harris

2 **Cardiff**
Memory Lane Cakes

3 **Manchester**
Kara Foodservice

4 **Sheffield**
Fletchers Bakeries

5 **East Kilbride**
Johnstone's Food Service

6 **Hamilton**
Lightbody of Hamilton

7 **Rennes, France**
Lightbody Europe
(Distribution company)

Acquired after year end:

8 **Pontypool**
Ultrapharm UK

9 **Żywiec, Poland**
Ultrapharm Poland

Our Business

Our Products

Our bakery division serves a UK bread and cake retail market of over £6 billion and produces for our UK foodservice channel serving a UK market of a further £1.5 billion.

Bread, Morning Goods and Cakes

- Artisan loaves
- Buns and rolls
- Celebration cakes
- Sharing cakes
- Snacking cakes
- Retailer own-label bakery product
- Memory Lane, our own cake brand

Foodservice

Kara is our own foodservice brand. The range covers an ever-growing portfolio of sweet and savoury baked goods, including floured baps, artisan breads, brioche buns, traybakes and large premium cakes, focusing on the latest consumer trends.

Licensed Brands

We have a long-standing relationship with many licensed brands, manufacturing quality bread and cakes for some of the biggest names in the market.

Thorntons
A partnership spanning two decades, with continuing innovation in celebration.

Mary Berry
Loaf, sharing and celebration cakes, all true to Mary Berry's original recipes, appealing to a broad customer base.

Disney
A long-term partner, we continue to help consumers enjoy the Disney brand in cake.

Mars
Collaborating on an innovative cake range for classic confectionery brands such as Galaxy, M&M and Maltesers.

Baileys
New brand launches include a milkshake-shaped cake with an Irish cream filling and topping.

Character Licensed Portfolio
Developing products to meet consumer trends and occasions, and to bring popular characters to life across different cake formats. Successful licences this year include Batman, Pokemon, Paw Patrol, Peppa Pig, Jurassic World 2 and JoJo Siwa.

Vogel's
Alfred Vogel was a pioneering Swiss nutritionist who used natural ingredients. Vogel's loaves are baked without added sugar, emulsifiers, enzymes, or artificial preservatives or flavourings, and are bursting with seeds and grains.

Village Bakery
The range of organic fresh rye bread brands for those looking to avoid wheat. All made with no added yeast, emulsifiers or enzymes.

Cranks
Wholesome, simple, nutritious bread baked with organic stoneground wholemeal flour and fermented for longer, made without any additives such as emulsifiers and enzymes.

Our Customers

Our bakery segment covers the following:

UK Retail

- Supermarkets
- Discounters
- Convenience

UK Foodservice

- Hotels
- Pubs
- Restaurants
- High-street chains
- Fast-food outlets
- Contract caterers

International Markets

- France
- Belgium
- Netherlands
- Ireland

Market Review

Here we give an overview of the markets we operate in, and a summary of the key trends we aim to take advantage of.

Our Markets

UK bakery is a large market valued at over £6.2 billion. In its broadest sense, UK bakery comprises the cake market and the bread and morning goods market. Both these markets straddle the grocery retail market and foodservice market, often also known as out-of-home (OOH) eating.

We can break the whole market down further into smaller sub categories:

- Cake: sharing, bites, celebration and seasonal.
- Bread and morning goods: 'plant' (packaged or factory) bread, artisan bread, buns and rolls, seasonal hot cross buns, pastry, muffins, doughnuts, Italian and many more.

Both markets also have a wide range of ingredients that can be allergens – including wheat, dairy, eggs and nuts – in which there are growing sub markets such as Free From.

Cake

The total UK ambient cake market (including prepacked cake and in-store bakery is valued at over £950 million (source: IRI, 52 w/e 23 June 2018). We trade across all categories, with large presences in celebration, sharing and seasonal.

Bread

The annual retail bread and morning goods market has a value of over £4 billion (source: Cantor World panel 52 weeks to 17 June 2018). This market is further divided as plant bread (£1.8 billion) and the rest, bread and morning goods (B&MG) (£2.2 billion). We trade only in B&MG, with sizeable presences in buns and rolls, hot cross buns and artisan bread.

Foodservice

UK foodservice spans many sub-sectors including coffee chains, restaurants, pubs, hotels and the non-profit sector such as the prison service or education. Each has different routes to market.

The UK foodservice cake and sweet treat bakery sector is worth approximately £807 million per annum (source: Derived from MCA data 52 weeks to 31 March 2018). Our presence is primarily within the coffee chains and, through the larger wholesalers, restaurants and pubs.

The UK foodservice B&MG sector is worth £691 million per annum (source: Derived from MCA data 52 weeks to 31 March 2018). We have a significant presence primarily with our buns and rolls business.

Overseas

Our overseas markets are primarily Europe, principally France and Ireland, with a smaller presence in the Benelux countries and some of eastern Europe. The size of these markets is significant, and their structure is similar to the UK.

Broad Consumer Trends

Innovation and product development is essential to the Group's strategy, helping our customers differentiate themselves and meet the needs of their end customers. Our challenge is to maintain a dynamic product portfolio that matches and satisfies macro consumer trends and niches. We show some of these current trends overleaf.

Market Review

Economic
Consumer confidence has been weak for some time, and price and value will remain important. Although consumers will remain cautious and price-conscious, they will continue to want affordable treats, so pricing policies need to reflect household economics.

Grocery
Consolidation has started to reshape the grocery market in recent times and this will continue. Online and discount will be the two fastest growing grocery channels, and will account for 22% share of grocery expenditure by 2023 (IGD). The convenience channel is also forecast to see strong growth.

Out-of-home
In the out-of-home (OOH) market, volume growth is forecast to be negative as weakening consumer confidence and general consumer caution mean people will eat out less. The casual dining restaurant sector is likely to struggle, but fast-food outlets, coffee shops, supermarket cafés and food-to-go offers will see better growth.

Healthy Eating
Consumers continue to pursue more healthy eating options generally, though indulgence is also a key trend in 'sweet-treating'. Media focus and regulatory pressure will continue to drive recipe reformulation and portion size. The 'Better for you' market is proliferating rapidly, with protein, gut health, low sugar, vegetarian, plant health, grains and seeds, and slow energy release all growing in popularity over recent years.

Free From
The overall Free From market continues to grow, doubling in size in the past five years. Mintel forecasts it to grow by an additional 25% to £899 million by 2022. It's boosted by consumers who don't cite a specific allergy or intolerance, but choose to avoid certain ingredients as part of a general healthy lifestyle. Dairy-free and gluten-free are the biggest sub-sectors.
The Free From bakery market is valued at £129 million and has grown 14.5% year on year.

Artisan Bread
The market has grown due to the perceived health benefits, the wider trend of provenance and the 'craft' movement. Consumers respond well to products they perceive to be less mass-manufactured.

Fragmentation
Social and demographic trends have a major bearing on the food sector. These include smaller households, single-person mealtimes, an ageing UK population, urbanisation, and an increasingly mobile population with less time to eat. These are fuelling the growth of convenience, online and out-of-home channels. But the growing fragmentation of consumers, channels, eating moments and needs will also translate into increasing demand for personalised products to meet individual needs. Thus single-serve and individually wrapped products are becoming more prevalent and important.

Technology
Technology is fundamentally changing the relationship between businesses and customers, who are increasingly using mobile devices to make purchases. Demand for anytime, anywhere purchasing and access to information will accelerate. Online ordering is not just for the weekly shop, it is also for top-up and 'dinner tonight' shopping.

"The overall Free From market continues to grow, doubling in size in the past five years. Mintel forecasts it to grow by an additional 25% to £899 million by 2022."

Strategy and Objectives

Our Purpose, Strategy and Operating Principles provide a vision and framework for strategic governance, creating value, sharing best practice and working effectively as a Group.

Our Purpose and Strategy

"Baking brilliance makes every day special."

Our Purpose

People love the high-quality products we make. They are essential parts of their daily lives and enjoyable treats and choices for every occasion. So we are committed to building the leading speciality bakery group – because baking brilliance makes every day special.

Our Vision and Strategy

Our strategic objective is to create sustainable value for our shareholders, customers and other stakeholders by building the leading speciality bakery group. We produce a broad range of high-quality bread, cake and bakery snacking products targeted at growing channels and market niches. These offer growth potential and differentiation for our major customers, while fulfilling the changing needs and desires of end consumers.

To achieve this our strategy is to:

- Invest in our people and our manufacturing sites to form a strong foundation for 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 Operating Principles

To achieve baking brilliance, we have to constantly raise standards and work effectively as a Group. The Finsbury Operating Principles are a set of practical commitments and guidelines for how we run our business, and which bring our strategy to life in our day-to-day work.

Operating Excellence

We continually invest in our bakeries to improve our efficiency and customer satisfaction.

Sustainable Approach

We optimise our use of resources and focus on reducing waste throughout our supply chain and in our bakeries.

Quality and Innovations

Our innovative, high-quality bakery products reflect changing customer needs and anticipate key market trends.

Cost Effectiveness

We maintain strict cost controls without compromising quality, streamlining our processes from sourcing to delivery.

Growth with Our Partners

Through long-term relationships with our customers, and an understanding of their needs, we can all enjoy profitable growth.

People Who Care

We invest in our people, who take personal pride in their contribution to our success, and are strong advocates of our business and products.

Strategy and Objectives

Operational excellence

See page 13

Sustainable approach

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Quality and innovations

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Cost effectiveness

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Growth with our partners

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People who care

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Business Model

Our vision is to be a leading speciality bakery group, producing a broad range of high-quality products targeted at growing channels and market niches, and which deliver growth and differentiation for our customers while fulfilling the needs of end consumers.

The Resources we Employ

Financial Capital

AIM-listed with access to institutional funding. Bank support for strategic investment and acquisitions.

- 3 banks supporting total facilities up to £90.0 million.
- Scottish and Welsh businesses benefit from local government initiatives to promote investment and employment opportunities.
- Low leverage with net debt to EBITDA < 1.

Intellectual Capital

- Extensive speciality bakery product know-how, category insight and understanding.
- Extensive customer relationships in both the Retail and Foodservice sectors, and known brand in Foodservice.
- Licence arrangements with brand owners.

Manufacturing Capital

- Plant and machinery well invested and maintained, with flexibility to cover niche to mainstream products.
- Own all major sites, with available space for new production or consolidation of facilities.
- Moving towards common Group IT platforms.

Human Capital

- Talent management programme to attract and develop graduates and other employees.
- Structured learning programmes and performance development review process.

Relationship Capital

- Long-term relationships with key partners, suppliers and customers.

Social and Natural Capital

- Signed up to Fairtrade, sustainable sourcing for ingredients.
- Food safety and technical standards are maintained to the highest level.
- Health and Safety (H&S) is a top priority for the Group, with a largely uniform H&S system across the business units and the drive forward of the "Home Safe Every Day" strategy.

Operating Principles in Action

Operating Excellence

- Sustained strategy to invest in the capability and capacity of our manufacturing assets:
  – £8.0 million new cake line with scale and automation.
  – New IT platform across all sites – 50% complete.
- Group manufacturing process blueprint leading to specific product design framework and improved efficiency and quality.

Sustainable Approach

- Most Finsbury sites are sending zero waste to landfill already. All will have achieved this by 2020.
- All sites have a nominated energy champion responsible for identifying and reducing consumption. Heat recovery projects are underway at several sites, and all lighting will be converted to LED by 2020. The asset investment strategy includes a focus on energy consumption.
- All sites are involved in the reducing and eliminating single-use plastics. With good progress already, we are targeting a 50% reduction by 2020.

Quality and Innovations

- Extensive insight capabilities mean new product development is in line with market trends.
- Over 60 employees are engaged in developing new products.
- Leading organic bakery in the UK.
- Manufacturing process blueprint embraces the production of high-quality premium product.
- All sites hold BRC A-grade or above.
- Health agenda embedded into development process, with over 90% of products achieving FSA salt targets. Good progress made across all categories in reducing sugar in line with PHE targets, and further research underway to achieve their 2020 objectives.
- Acquisition of Ultrapharm after year end gives us scale in Free From.

Business Model

We make bread, cakes and morning goods for the UK retail and foodservice markets, and are extending our reach into Europe.

The business model below illustrates our chosen system of inputs of capital, and how we transform them through various business activities into outputs.

Cost Effectiveness

- Centralised Group buying focused on high-quality and cost effective ingredients.
- Operational excellence initiatives focused on achieving lowest-cost-producer status in areas where we have niche strength e.g. artisan breads or round sharing cake.
- Group logistics leverages our scale to achieve lowest cost route to customers.

Growth with Our Partners

- Our scale and diversity of products across UK bakery means the relationship with grocery retail customers is a partnership.
- Our business with discounters is growing in line with their growth within UK grocery.
- Our channel diversification into foodservice, our Kara foodservice brand, and our broad frozen foodservice range of products, sees us as the leading foodservice partner to the industry, growing at 6% in the year.

People Who Care

- A health and safety risk management team with a mantra of "Home Safe Every Day", supported by resources and a common Group-wide strategy and programme.
- Values of teamwork, honesty, ownership, respect and communication:
  – New workplace Facebook communication tool to facilitate communication between all employees.
- A people strategy for all employees, embracing courses in basic English, an engineering apprenticeship programme, a graduate recruitment programme and leadership development programmes.
- Annual employee survey to obtain our employees' views.

Creating Value

Value for Shareholders

Using our Operating Principles effectively achieves our Purpose and Strategy, creating long-term shareholder value through share price growth and attractive dividends. Over the year, the share price increased 2.5p to 118.5p and the dividend increased from 3p per share to 3.3p per share, a 10% increase.

Bread and Cakes for Customers and Consumers

We define ourselves as a Speciality Bakery group. Everything we do is with a view to achieving baking brilliance. We are predominantly a 'retailer brand' manufacturer, but target our product development at 'wowing' consumers, in line with emerging trends and shopping evolution. We constantly innovate and refresh our hot cross buns, artisan breads, celebration cakes, sharing cakes, Christmas Yule logs, and our Kara range of foodservice bakery products.

We measure success by the closeness of our long-term relationships with our retail partners, by our growing presence in the discounter and convenience channel, and by the growth in our foodservice business.

Our products reach a broader base of consumers through a strategy to diversify across all UK channels and indeed European markets. Our customer base is broad, and having no single dependency lowers risk and creates value.

Employment and Development Opportunities for Individuals and Communities

People are important to our business. We have approximately 3,000 employees, ranging from unskilled, through semi-skilled, to management. Opportunities exist within all our bakeries for training and development programmes and talent management initiatives. We recognise potential and develop skills, facilitating personal development and advancement. Our 'People Who Care' Operating Principle, and initiatives that support it, reflects the importance of people to our business.

Tax Paid

A UK manufacturing group generates substantial tax for the country. Our employees pay tax on their earnings and the Company pays national insurance on those earnings. The Company pays Corporation Tax with an effective tax rate of circa 21%, as well as paying packaging and apprenticeship levies. There are a variety of other indirect taxes, e.g. 50% of our energy bills are fixed government-imposed renewable costs.

As a Group, we do not engage in initiatives to shelter profits from tax.

Operating Excellence

We're improving operating excellence, every day

5 times bigger

Rising Stars

Our new state-of-the-art artisan bakery in Salisbury has enabled us to grow our artisan breads business five-fold since 2016, with a wide range of new hand-made products for our retail and foodservice partners. The Artisan team has adapted quickly to a fast-track training programme where they try new methods, work flows and planning tools, to ensure they can combine craft and quality with business scale.

5.5 inches

Topping for Cakes

We've made a significant investment in our whole-cake production line in Cardiff. We now possess industry-leading output and automation, improved consistency and quality, and by far the largest capacity in the UK for producing 5.5" cakes.

Chief Executive's Report

Q&A with John Duffy. Clear steps forwards as a Group.

10.2p

The EPS calculated on adjusted profit has grown by 4.1% year on year.

£12.6m

Record capital investment of £12.6 million.

£15.6m

Net debt at £15.6 million is down £1.9 million from £17.5 million reported in the prior year.

Chief Executive's Report

"The aim is to continue our strategy of establishing efficient, cost-effective scale bakeries in our chosen product areas."

How was the year overall, and what were the performance highlights?

We've grown like for like sales and adjusted profit year on year, reduced debt further after significant investment, and grown the dividend payable. We've achieved this despite the volatile retail environment, and the unprecedented input cost inflation we have seen over the period. Our relentless investment and efficiency focus of recent years has enabled us to not only cope with this market environment, but also to maintain our margin. At the same time, we've also ensured we are not over-dependent on any one customer or product area. The true measure of success is that we have achieved underlying growth ahead of our market, and have demonstrated the growth available from premium, healthy and authentic on-trend innovation.

For example, we've introduced our own Free From brand in Europe, Wiso, which capitalises on the fact that people choosing to avoid gluten is now a lifestyle and health choice across North America, Europe and UK.

In addition, our Mary Berry cake brand launched in the final quarter of last year, with a number of product formats across a broad customer base. It's been hugely successful, with a significant level of sales for the Group, illustrating the potential of a licence with good consumer recognition and emotional engagement, plus of course, some very good products – all traditional, with an artisanal finish, and very much in keeping with Mary's credentials.

Another example of innovation is our artisan bread, which may be hand-crafted, require long fermentation, and baking in stone ovens. It was a slight trend we noticed a few years ago and decided could have a big impact, so we invested in capacity in 2016. We have now filled that capacity and are looking to invest further to meet growing demand.

These all show that on top of productivity and efficiency, we're very good at craft and innovation, and consumers are prepared to pay for great products that have a lot of craft. These examples are meaningful opportunities for Finsbury to achieve growth and sales, and are what we're good at. These successes, alongside hard work and ongoing investment, have allowed us to maintain a resilient performance for the year, one which we are proud of.

How do you maintain this resilience in the face of margins being squeezed?

Inflationary costs, larger customers and competitive markets all present a margin challenge to manufacturers across the market. Improving margins, or even maintaining them, is difficult in the short term. But strong, innovative, well-invested manufacturers of scale are an essential ingredient in helping our consolidating customers achieve their own strategies. Finsbury is striving to be exactly that – the leading speciality baker, providing our customers with brilliant bakery products at affordable prices.

While we continue to aim for this ambition, the shock butter price increase at the end of last year came on top of broader input price inflation in everything from labour and commodities to energy. We had to offset these increased costs with efficiency improvements, reformulation and cost recovery, to protect margins. At the same time, we had to take some big decisions, such as the decision to close Grain D'Or.

What happened at Grain D'Or?

The escalating butter price – triple what it was just a few years ago – ultimately led to uncompetitive pricing, lost contracts and widening financial losses at our London bakery, Grain D'Or. With the losses caused by the butter increase, we had to change our commercial plans. This precipitated the difficult decision to close the business in the first half, following extensive employee consultation. Thanks to the hard work of the Grain D'Or and wider Finsbury team, we were able to maintain good customer relationships, and we went out of our way with unions and employees to help them find alternative local employment. All in all, it was a necessary step back to take stronger steps forward.

What are these steps forward?

In particular, another year of record capital investment, at £12.6 million. The aim is to continue our strategy of establishing efficient, cost-effective scale bakeries in our chosen product areas. This brings the total capital spend of the last five years to over £50.8 million.

Our new IT platform is a sizeable investment for us. We have successfully rolled it out to three of our six manufacturing sites, with the remaining three sites due in the first half of the new financial year. IT and management information goes to the heart of all businesses, so this project is to define our business processes, and get them up and running in each of the sites, to provide managers with really good quality information. At the businesses where we've done that, we are seeing much better understanding of labour and waste costs by product. This allows us to gain further insight into the true efficiency of our manufacturing operations, and make informed commercial decisions.

We also commissioned the new £8.0 million cake line at our Cardiff bakery and began continuous seven-day operations. Our new line is completely up to date in oven and process technology, and much faster. So we're future-proofing an area where we are number one in the marketplace, with around 50% share – making sure we gain the process and quality benefits, as well as improve our cost effectiveness.

Finsbury has been described as a series of bakeries across the UK making different products. Is it a Group?

Yes. In recent years, we have acquired a collection of very good, but varied and historically independent businesses, making many different products for many different markets. It pays to diversify. But the truth is, they all have baking in common, and this is where being a Group is important.

We've moved in recent years to a Group divisional structure and brought in strong expertise in Group functional Directors, with the aim to derive scale benefits from a common approach across the Group. There's a lot of opportunity to define a way of working across the Group, which won't take away from the individual independence of our companies.

But it means they can do their day job, and do it well, without having to worry about matters such as IT change, or Group purchasing of insurance, and similar. It also means we benefit from common insights into consumer trends, or common approaches to maintenance and safety, for example. It's really a way of looking to improve the sum of the parts and gain some leverage from being a larger Group.

We believe brilliant baking makes every day special, so are applying brilliance to the entire process. To be brilliant we have to constantly raise standards, inspire innovation and work effectively as a Group. We've developed the Finsbury 'Recipe for Growth' and Operating Principles, which allow all our businesses to understand and use the strengths of the Group, and benefit from common approaches such as the Group-wide IT platform mentioned previously, and our new Group-wide people strategy.

Tell me more about this people strategy?

Our people strategy is now entering into its third year. It includes talent management and leadership development programmes, with increased investment in training. We've also conducted our second employee engagement survey. It all underpins our belief that maximising the potential and contribution of our people is essential to unlocking the longer-term potential of the business.

On the subject of our people, I must also say the scale of change management we've undertaken this year is unprecedented. I travel around meeting people, who are often also travelling around the Group. Our work is putting additional demands on teams across the Group, over and above their normal day jobs. And the jobs themselves, using craft skills to develop and make craft products, for demanding customers, day in, day out. Our people still take time to put the effort in. They have responded brilliantly, and I'm very grateful for that.

As for further development of the Group, your strategy talks about growth through acquisition?

With further acquisitions we can introduce new product, customer or channel diversification, or accelerate market consolidation in our main product areas. This year, we continued to explore several acquisition opportunities without finding the right balance of risk and reward. However, we were delighted to have completed the acquisition of Free From baker, Ultrapharm, shortly after the year end. This offers the Group a significant opportunity to increase our access to an exciting and high-growth marketplace. We remain committed to future acquisition-led growth as part of our strategy.

That brings us on to the future. What's your view on the outlook for Finsbury Food Group?

We are looking ahead at steady organic growth, which is no bad thing in the market we're in, but the desire remains to be a strong competitor within our bakery markets. The Free From growth opportunity open to us in the UK and Europe through the above-mentioned acquisition of Ultrapharm is a good example of how we can increase scale through acquisition. This follows three years where we've benefited from optimising the growth platform we've built, and where we are now capable of taking the next steps competently. Three years I think we've put to good use.

John Duffy
Chief Executive Officer
14 September 2018

Taking a sustainable approach, every day

20% reduction

Increasing energy and water efficiency

Over the last 18 months, we've been converting the lighting in our offices and ancillary areas to LED lighting with motion sensors. We're currently around 65% complete and hope to be over 80% complete by the end of the coming year. And for our new cake manufacturing line at our Memory Lane site in Cardiff, we specified best-in-class energy efficiency. The fully insulated tin-wash has reduced energy use by 80% compared to previously, while the oven we selected has brought about a 20% reduction in gas use compared to the previous ovens.

Focused on quality and innovation, every day

40% improvement

Continuous Improvement

We set up a multi-functional project team to look to improve product quality on our 'bite' products at our Small Cake Centre of Excellence at Lightbody of Hamilton. Using laser height control technology to enable real-time continuous yield control on our high-speed in-line process, saving money on key ingredients. It has also brought significant consistency benefits to the bite products – and internal quality evaluation scores have improved 40%.

Key Performance Indicators Financial

Sales Growth %

Performance

Performance	Year
-3.4%	2018
0.2%	2017

Definition
Revenue £ this year/Revenue £ last year as a percentage.

2018 Performance
The closure of two loss-making bakeries, Grain D'Or and Campbells, during the first half of the year, resulted in a year-on-year decline in sales.

Like for Like Sales Growth %

Performance

Performance	Year
2.4%	2018
0.3%	2017

Definition
As above, but comparing like for like, excluding decline from closures.

2018 Performance
Excluding the revenues associated with the closed bakeries, sales grew across all UK bakery, and within foodservice by 5.7%.

Adjusted Operating Profit %

Performance

Performance	Year
5.9%	2018
5.5%	2017

Definition
Adjusted operating profit £/ Revenue £ as a percentage.

2018 Performance
The closure of loss-making bakeries and the benefit of significant capital investment, as well as a relentless focus on operational efficiency, delivered and underpinned the growth in adjusted operating profit %.

Adjusted EPS

Performance

Basic

Performance	Year
10.2p	2018
9.8p	2017

Diluted

Performance	Year
9.8p	2018
9.5p	2017

Definition
Adjusted Basic: adjusted profit attributable to the equity holders/weighted average number of ordinary shares in issue during the period.

Adjusted Diluted: adjusted profit attributable to the equity holders/(weighted average number of ordinary shares in issue during the period + dilutive effect of share options).

2018 Performance
With growth in operating profits, the growth in operating profit %, and with the weighted average number of ordinary shares in issue during the period being consistent with that of the previous period, we have seen growth in EPS.

Net Debt

Performance

Performance	Year
-£15.6m	2018
-17.5m	2017

Definition
Interest-bearing loans and borrowings plus unamortised transaction costs, including cash balances.

2018 Performance
The Group continues to generate cash. EBITDA of £25.6 million facilitates the consistent levels of capital investment of £12.6 million, the closure costs of the bakeries, as well as the dividend. The dividend cover of 2.6 times reflects a healthy and sustainable cash position.

Debt to Adjusted EBITDA

Performance

Performance	Year
0.6	2018
0.7	2017

Definition
As above expressed as a ratio to adjusted EBITDA (operating profit adding back depreciation and amortisation).

2018 Performance
This is driven by the reduction in net debt from £17.5 million to £15.6 million, coupled with the growth in EBITDA from £24.9 million to £25.6 million.

Return on Capital Employed (ROCE)

Performance

Performance	Year
13.3%	2018
13.3%	2017

Definition
Adjusted operating profit/average capital employed.*

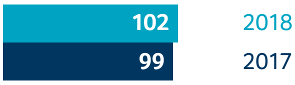
*Average capital employed = fixed assets + current assets + liabilities, excluding cash, interest-bearing borrowings, and pension deficit.

2018 Performance
Maintaining the ROCE at 13.3% is a satisfactory result considering the inflationary trading environment created by commodities and national living wage. Also, we implemented two of the major capital investment programmes – the £8.0 million Cake 3 line and the new M3 ERP systems – during the year.

Key Performance Indicators Non-Financial

Revenue £k per Employee

Performance



Definition

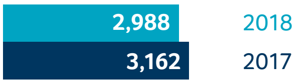
Revenue/The average number of persons employed by the Group including Directors and excluding agency staff during the year.

2018 Performance

An important productivity measure. Growth in like for like sales accompanied by a reduction in the average numbers of people employed, brought a 3% improvement.

Number of Employees

Performance



Definition

The average number of persons employed by the Group including Directors and excluding agency staff during the year.

2018 Performance

A consequence of the closures of the bakeries halfway through the year, as well as capital investment to improve capability and productivity.

Number of BRC A Grade Ratings

Performance

Definition

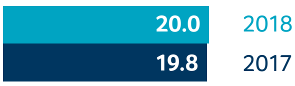
Number of sites attaining BRC A grade ratings.

2018 Performance

A consequence of our focus on operational excellence, it underlines our strategy, and our purpose – of Baking Brilliance.

Complaints per Million Units

Performance



Definition

Number of complaints/(number of units sold/1,000,000).

2018 Performance

Our long-term commitment to product quality makes this a key measure. The small deterioration in the period arose in one of the six factories due to the launch of a particular range of niche bread products. Prompt management response and product redevelopment means the trend is unlikely to continue.

RIDDORs per 100k Hours Worked

Performance

Definition

Number of RIDDORS in 12 months/(number of hours worked in 12 months/100,000).

2018 Performance

The relentless focus on health and safety and the "Home Safe Every Day" initiative, promoted by a motivated health and safety executive, management and staff at each bakery, has resulted in significant improvement in accident statistics.

The Group uses Alternative Performance Measures ('APMs') which are non-IFRS measures to monitor the performance of its operations and of the Group as a whole. These APMs along with their definitions and reconciliations to IFRS measures are provided in the tables on page 27.

3 years

Top Talent

For the past three years, we've been investing in and redesigning our leadership team structure at Hamilton, creating a modern business culture within our manufacturing and engineering functions, and creating the foundation for a wider modernisation programme. The projects for both functions will help us attract and retain the best talent and enhance our leadership capability.

250 suppliers

Improved Performance

Across the Group, we have relationships with over 250 suppliers of ingredients and packaging, managed by our buyers to ensure our supply chain runs efficiently, without duplication and with correct agreements at the outset. We work closely with our suppliers, not only to optimise costs, but to ensure their high-quality ingredients improve our factory performance and finished-product quality.

Making the Group more cost effective, every day

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.

Principal Risks and Uncertainties

The Group's management team assesses risks regularly and develops strategies for dealing with them. We carry out an annual formal review of risks. This process involves identifying risks, and determining the likelihood of them affecting the business, the potential severity of their impact, and what we need to do to manage them effectively. This risk management is essential to our ability to achieve our strategic objectives.

The risks we consider are as follows:

Strategic Risks:

Retailer Consolidation

There have been a number of high-profile mergers and prospective mergers reported in the press in the past year, including those of Tesco and Booker, and of Asda and Sainsbury's. There is always a risk in these situations that as the newly merged entities look to offer the consumer lower prices through economies of scale, they rationalise their supplier base.

Also, the exceptional buying power of these new entities could pressurise suppliers into lowering prices to preserve trade.

As a supplier to all parties mentioned above, we are not immune to this risk. However, we strive to be the highest-quality, most-innovative and lowest-cost supplier and believe this, along with our strong relationships with our customers, will ensure we are strongly placed to continue to supply them.

Competitive Environment and Customer Requirements

The Bakery sector remains competitive. Monitoring key performance indicators at customer level, such as service or customer complaints, is part of our risk management process. Providing high-quality products, investing in innovation, and competing in value, helps strengthen customer relations and support growth initiatives. We invest heavily in category management, new product development and marketing. This investment has helped create an insight into customer and consumer demands.

Consumer Trends

Since the EU referendum, consumer optimism and spending has remained resilient. However, trends suggest that as we move closer to the exit deadline, uncertainty over what Brexit deal will be implemented is having an impact on sentiment. British consumers have stopped taking on more debt and have started saving their money again, in a reversal to the trends that upheld economic growth over the last year. The risk to the Group is that spending on non-essential goods and treats will fall, affecting the demand for our key products.

We will continue to focus on quality and value, and will look for new channels, new products and new formats to gain competitive advantage.

Health continues to be a major focus for the business. Special teams continue to work on reducing sugar and salt as part of the Government obesity strategy and Public Health England recommendations. Our development teams work closely with our customers to ensure we meet or exceed all guidelines for health and nutrition, and work continuously with suppliers to reduce salt, fat and sugar in our products. We are committed to meeting the FSA 2017 salt targets and are already over 90% compliant.

Operational Risks:

Health and Safety

The importance of health and safety is widely recognised across the Group. Failure to adhere to health and safety regulations within the workplace not only puts our employees at risk, but could also carry serious financial, reputational and legal risk. We have appointed a Group Head of Health and Safety to create a largely uniform system across all business units and to promote our 'Home Safe Every Day' strategy.

The Group's technical function is responsible for implementing and maintaining high standards of food safety, striving for best practice. We manage quality assurance procedures at site level, and review and audit them continually, making improvements as appropriate.

All manufacturing sites are registered under the British Retail Consortium (BRC) Unannounced Scheme. The sites are subject to regular internal and independent food safety and quality control audits, both announced and unannounced, including those carried out for our customers. We maintain appropriate insurance cover, including product recall insurance, to mitigate the potential financial impact of a breach in food safety compliance.

Risk Report

External Risks:

Brexit

There is significant uncertainty over the type of Brexit deal the UK will agree with its European neighbours. Anything different from the current situation is likely to have an impact on both the food manufacturing industry and on the Group.

The majority of the Group's trading is in the UK, but we have sales in Europe, including through Lightbody Europe, our 50% subsidiary.

We buy a material proportion of bakery commodities, such as dairy and egg, from Europe. Any tariffs on trade will therefore have a bearing on the UK bakery market, the UK manufacturing industry and the Group. We already have contingency planning in place, looking at alternative UK sources of products.

We are also likely to face higher logistics and administration costs due to increased customs border checks, and will require higher stock levels due to lengthening delivery times for ingredients.

Equally, the food manufacturing industry, including Finsbury, typically relies on low-skilled labour. We are developing labour strategies to retain and develop existing workers, attract and hire new workers and reduce labour, while boosting productivity with our capital investment programme.

We are not being complacent in our response to likely Brexit scenarios, and have a cross-functional team preparing a number of strategies to minimise its impact.

Cyber Security

The Group may be potentially exposed to random, malicious attacks from cyber criminals. Maintaining protection software is one tool in protecting our data. In addition, we are implementing common information systems across all companies, with standard protection, operating requirements and security protection. Real-time back-up, training, and regular communication, pulls our defences together.

During 2017/18, the Audit Committee reviewed cyber security in four areas: network security, hardware and software maintenance and updates, disaster recovery and related controls, and governance. Where we made recommendations for improvements, we are implementing them. We will run an annual security review, including penetration testing, auditing of all software and hardware, and testing of disaster recovery plans.

Financial Risks:

Commodity and Labour Pressures

Bakery involves the use of commodities whose prices are determined by worldwide demand and macro-economic factors. Commodity pressures have increased as a consequence of a number of factors;

1. A change in the value of Sterling against both the Euro and Dollar following the EU referendum.

2. The commodity cycle, which, in the recent past, has been relatively low. The cycle has seen significant increases in the price of a number of commodities over and above any exchange rate deterioration.

3. European policies, particularly for butter and sugar.

We maintain a high level of expertise in our buying team, and will consider long-term contracts where appropriate, to reduce uncertainty in input prices. The team also cultivates strong relationships with major suppliers, to ensure continuity of supply at competitive prices.

Regular renovation and innovation in our product range can help to manage margin pressures effectively, as far as the competitive environment allows. We also purchase forward foreign currency to minimise the fluctuation of input costs linked to future currency conversion rates.

The National Living Wage is increasing the cost of labour above inflation and demand-related adjustments. More recently, the future availability of labour has become a concern. Ongoing capital investment and improvements in operational efficiency help us reduce the impacts of both labour availability and cost, as well as material inflation.

Pension Fund Deficit

The Group has one defined benefit pension scheme within its Memory Lane Cakes Limited business in Cardiff. The scheme was closed to new members in 2010, to reduce the funding risk to Memory Lane Cakes. The valuation of the scheme on a technical provision basis, as well as the underlying performance of the invested assets, can cause large fluctuations in valuations. There is an agreed deficit recovery plan fixed until September 2023, or until a new schedule is agreed, based on the next valuation, which will be at 31 December 2018.

Foreign Exchange

We supply UK-manufactured products to Lightbody Stretz Ltd, our 50%-owned selling and distribution business which trades in mainland Europe. We also buy a small amount of commodities and capital equipment in foreign currency. As a consequence, we are exposed to fluctuations in foreign currency rates. We manage this risk by continually monitoring our exposure to foreign currency transactions. We use forward currency contracts when required and our procurement team works hard to ensure we get the best prices for commodities and equipment, giving special consideration to the benefits of contracts denominated in foreign currency.


We're growing
with our partners,
every day

Growth with Our Partners

Top10 cake brand

Building New Relationships

Our ambition for growth has led to many successful and strategic partnerships. We've increased the number of customers we serve from our bread sites, grown category numbers with our long-established cake customers, and established long-term licence partnerships with Thornton's and Disney, as well as newer licensed brand successes such as creating a top-10 cake brand with Mary Berry.

Financial Review

Group revenue for the 52-week period to 30 June 2018, including revenue from the bakeries closed during the year, is £303.6 million, 3.4% lower than last year. Continuing Group revenue (i.e. excluding the revenue from the bakeries closed) is, at £290.2 million, up 2.4% or £6.8 million. Growth in continuing revenue is within markets that are seeing value growth with a slight volume decline.

We have stripped significant and non-recurring costs of £13,067,000, which primarily relate to the closure of the bakeries, out of operating profit, to give adjusted operating profit, which provides a clearer presentation of the underlying trading performance of the Group. Adjusted operating profit at £17.8 million is up 2.3% on last year. Adjusted operating profit margins are 5.9% (2017: 5.5%), a consequence of removing the losses of the bakeries closed. The Group's performance is seen as resilient in the face of severe commodity and labour inflation. This resilience is underpinned by capital investment, a focus on operational efficiency and a removal of low-profit business to optimise product mix.

Dividend

Subject to shareholder approval at the Company's AGM on 21 November 2018, the final dividend of 2.2 pence per share will be paid on 21 December 2018 to all shareholders on the register at 23 November 2018, and will be recognised in the year ending 29 June 2019.

The tables below show what the Directors consider to be the underlying performance of the Group. The adjustments eliminate the impact of significant and non-recurring items and other accounting items.

52 week period ended 30 June 2018

	Adjusted operating performance £000	Significant non-recurring items £000	Defined benefit pension scheme £000	Fair value of interest rate swaps/ foreign exchange contracts £000	**As per Consolidated Statement of Comprehensive Income £000**
Revenue	**303,600**	-	-	-	**303,600**
Cost of sales	**(211,511)**	-	-	-	**(211,511)**
Gross profit	**92,089**	-	-	-	**92,089**
Other costs excluding depreciation and amortisation	**(66,489)**	(13,067)	411	49	**(79,096)**
EBITDA	**25,600**	(13,067)	411	49	**12,993**
Depreciation and amortisation	**(7,756)**	-	-	-	**(7,756)**
Results from operating activities	**17,844**	(13,067)	411	49	**5,237**
Finance income	**24**	-	-	143	**167**
Finance costs	**(652)**	-	(277)	-	**(929)**
Profit before tax	**17,216**	(13,067)	134	192	**4,475**
Share of losses of equity accounted investees after tax	**-**	-	-	-	**-**
Taxation	**(3,708)**	2,452	(23)	(32)	**(1,311)**
Profit for the year	**13,508**	(10,615)	111	160	**3,164**

52 week period ended 1 July 2017

	Adjusted operating performance £000	Significant non-recurring items £000	Defined benefit pension scheme £000	Fair value of interest rate swaps/ foreign exchange contracts £000	**As per Consolidated Statement of Comprehensive Income £000**
Revenue	**314,296**	-	-	-	**314,296**
Cost of sales	**(216,493)**	-	-	-	**(216,493)**
Gross profit	**97,803**	-	-	-	**97,803**
Other costs excluding depreciation and amortisation	**(72,883)**	(4,000)	200	(71)	**(76,754)**
EBITDA	**24,920**	(4,000)	200	(71)	**21,049**
Depreciation and amortisation	**(7,485)**	-	-	-	**(7,485)**
Results from operating activities	**17,435**	(4,000)	200	(71)	**13,564**
Finance income	**-**	-	-	555	**555**
Finance costs	**(877)**	-	(204)	-	**(1,081)**
Profit before tax	**16,558**	(4,000)	(4)	484	**13,038**
Share of losses of equity accounted investees after tax	**(22)**	-	-	-	**(22)**
Taxation	**(3,578)**	680	1	(62)	**(2,959)**
Profit for the year	**12,958**	(3,320)	(3)	422	**10,057**

Details of significant non-recurring items are detailed in Note 4.

Financial Review

Earnings Per Share (EPS)

EPS comparisons to the year before can be distorted by significant non-recurring items and other items highlighted in the tables on the previous page. The Board is focused on growing adjusted diluted EPS, which is calculated by eliminating the impact of the items highlighted on the previous page, as well as amortisation of intangibles, and incorporates the dilutive effect of share options. Adjusted diluted EPS is 9.8p (2017: 9.5p).

	2018	2017
Basic EPS	1.7p	7.1p
Adjusted basic EPS	10.2p	9.8p
Diluted basic EPS	1.6p	6.9p
Adjusted* diluted EPS**	**9.8p**	**9.5p**

* You can find further details in Note 9.
** Diluted EPS takes basic EPS and incorporates the dilutive effect of share options.

Cash Flow

There was a decrease in our working capital requirement of £1.3 million (2017: £2.5 million increase) in the financial year. Corporation Tax payments made in the financial year totalled £3.3 million (2017: £2.7 million). The payments in the current and prior year took account of the research and development tax relief due to the Group, tax losses being utilised, and a higher tax rate charged on overseas profits. Capital expenditure in the year amounted to £12.6 million (2017: £12.5 million).

Debt and Bank Facilities

The Group's total net debt is £15.6 million (2017: £17.5 million), down £1.9 million from the prior year. During the year, the Group refinanced its debt facilities. The new facility is a £45.0 million 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 it to be increased by up to a further £45.0 million.

The Group is able to offer strong asset backing to secure its borrowings. The Group owns freehold sites at Memory Lane in Cardiff, Fletchers' site at Sheffield and Lightbody in Scotland. In addition, the Group has a strong trade debtor book made up primarily of the UK's major multiple retailers. This debtor book stood at £40.0 million (2017: £45.2 million) at the period-end date.

The Group recognises the inherent risk from interest rate rises, and uses interest rate swaps to mitigate these risks. The Group entered into a swap for £20.0 million for five years from 3 July 2017 (fixed) at 0.455%. The total balance of swaps at 30 June 2018 is £20.0 million (2017: £nil). The counterparty to these transactions is HSBC Bank Plc.

The effective interest rate for the Group at the year end, taking account of the interest rate swap in place with base rate at 0.5% and LIBOR at 0.501%, was 1.66% (2017: 2.15%).

Financial Covenants

The Board reviews the Group's cash flow forecasts and key covenants regularly, to ensure it has adequate facilities to cover its trading and banking requirements with an appropriate level of headroom. The forecasts are based on management's best estimates of future trading. There has been no breach of covenants during the year.

Interest cover (based on adjusted earnings before interest, tax, depreciation and amortisation – EBITDA) for the 52 weeks to 30 June 2018 was 40.7 (2017: 28.4). Net bank debt to EBITDA (based on adjusted EBITDA) for the year to 30 June 2018 was 0.6 (2017: 0.7).

Taxation

The Group taxation charge for the year was £1.3 million (2017: £3.0 million). This represents an effective rate of 21.5% on profits before significant and non-recurring and other items (2017: 21.6%). You can find further details on the tax charge in Note 8 to the Group's Financial Statements.

Financial and Non-Financial Key Performance Indicators

We monitor a range of financial and non-financial KPIs at site level covering, amongst others, customer service, quality and health and safety.

The Group Board receives a regular overview of these. We discuss these KPIs in further detail on pages 20 and 21.

The Strategic Report was approved by the Board of Directors on 14 September 2018 and was signed on its behalf by:

Stephen Boyd
Director

People Who Care

People Who Care

4 graduates

Finance Graduate Scheme

As part of our desire to build a pipeline of future talent, this year we introduced our first graduate scheme. Four high-calibre finance graduates have joined the business on a three-year programme where they will complete a number of rotations as well as professional qualifications. We now aim to replicate the programme across other functions.

1 team

Engineering Apprenticeships

We support engineering apprenticeships at our manufacturing sites, to ensure we have the skills and capabilities to support our growth. For the first time this year, we are bringing our apprentices from across the business together to join 'Team Apprentice' – a business-wide, cohesive team which will more effectively support communication with our apprentices, as well as improve their development and retention.

Corporate Governance
Chairman's Introduction to Governance

As Chairman of the Board it is my responsibility to ensure that the Group has both an effective corporate governance and Board leadership. The Group has decided to follow the Quoted Companies Alliance Corporate Governance Code (the 'QCA Code') and this report follows the structure of these guidelines and explains how we have applied the guidance. The Board considers that the Group complies with the QCA Code in all respects.

Report on Corporate Governance

The Board

The Board believes that corporate governance is more than just a set of guidelines; rather it is a framework which underpins the core values for running the business in which we all believe, including a commitment to open and transparent communications with stakeholders. We believe that good corporate governance improves performance while reducing or mitigating risks.

QCA Principles

1. Establish a strategy and business model which promote long-term value for shareholders

The Group's vision is to be the UK's most innovative speciality bakery group, providing differentiation for our customers. Our business model, and the Finsbury 'recipe for growth' operating principles by which we manage our business, are shown on page 11. Our strategy and markets are explained in detail in our Strategic Report on pages 7 to 10.

2. Seek to understand and meet shareholder needs and expectations

Relationships with our shareholders are important to us and we seek to provide effective communications through our Interim and Annual Reports along with Regulatory News Service announcements. We also use the Company's website, www.finsburyfoods.co.uk for both financial and general news relevant to shareholders. The Executive Directors meet shareholders and other investors/potential investors at regular intervals during the year and host broker and analyst meetings at operating sites from time to time.

The broker and NOMAD, Cenkos, is briefed regularly and updates the Board during the year on shareholder expectations.

The Annual General Meeting (AGM) is regarded as an opportunity to meet, listen and present to shareholders, and their participation is encouraged; all Directors attend the AGM and are available to meet shareholders individually or as a group. All 2017 AGM resolutions were passed comfortably.

3. Take into account wider stakeholder and social responsibilities and their implications for long-term success

Our continued success is built entirely on the talented people who work here, and employee engagement forms a major part of our operating principles. Everyone at Finsbury Food Group is a valued member of the team, and our aim is to help every individual achieve their full potential. We offer equal opportunities regardless of race, gender, gender identity or reassignment, age, disability, religion or sexual orientation.

Another key element of our recipe for growth is to work for mutual benefit with our partners, including retail grocery and foodservice customers, all of whom benefit from tailored innovation and service. Joint business plans are agreed, customers visit our sites on a regular basis to be involved in product development and business planning activities.

Our key strategic suppliers are long term in nature and work in partnership with the Group on innovations in both product and service. We believe an ethical supply chain is a sustainable one. Finsbury Food Group is a long-standing member of Sedex, an organisation for promoting improvement in responsible and ethical business practices in supply chains.

4. Embed effective risk management, considering both opportunities and threats, throughout the organisation

The Board recognises the need for a robust system of internal controls and risk management. The assessment of risks and the development of strategies for dealing with these risks are achieved on an ongoing basis through the way in which the Group is controlled and managed internally. A formal review of these risks is carried out by the Group on an annual basis.

The review process involves the identification of risks, assessment to determine the relative likelihood of them impacting the business and the potential severity of the impact and determination of what needs to be done to manage them effectively. Risk management is integral to the ability of the Group to deliver on its strategic objectives.

The system of internal control is structured around an assessment of the various risks to the business and is designed to address those risks that the Board considers to be material, to safeguard assets against unauthorised use or disposition and to maintain proper accounting records which produce reliable financial and management information.

The key features of the Group's system of internal control are as follows:

- An ongoing process of risk assessment to identify, evaluate and manage business risks
- Management structure with clearly defined responsibilities and authority limits
- A comprehensive system of reporting financial results to the Board
- A rolling programme of internal audit activities carried out by group finance reporting to the Audit Committee
- Appraisal and authorisation of capital expenditure projects
- Dual signatories on all bank accounts

Report on Corporate Governance

5. Maintain the Board as a well-functioning, balanced team led by the Chair
The Board is made of up two Executive Directors and four independent Non-Executive Directors and is chaired by Peter Baker who has held this post for four years and is also regarded as independent. Meetings are open and constructive, with every Director participating fully. Meetings are held at operating sites on a rotating basis, enabling the Board to meet the senior site teams and to visit the factories.

The Chairman is responsible for the leadership of the Board and ensuring its effectiveness in all aspects of its role. He is also responsible for creating the right Board dynamic and for ensuring that all important matters, in particular strategic decisions, receive adequate time and attention at Board meetings. The Executive Directors are responsible for the day-to-day running of the business and developing corporate strategy while the Non-Executive Directors are tasked with constructively challenging the decisions of executive management and satisfying themselves that the systems of business risk management and internal financial controls are robust.

The Board met five times in the year; a calendar of meetings and principal matters to be discussed is agreed at the beginning of each year. Board papers are circulated at least one week before meetings, allowing time for full consideration and necessary clarifications before the meetings. Board dinners are held on the evening before meetings and allow broader discussion and development of effective Board relations.

Terms of reference for the committees are published on the Group's website. The committees have the necessary skills and knowledge to discharge their duties effectively.

All Directors have access to the Company Secretary, who is responsible for ensuring that Board procedures are followed and that the Company complies with all applicable rules, regulations and obligations governing its operation. If required, the Directors are entitled to take independent legal advice and if the Board is informed in advance, the cost of the advice will be reimbursed by the Group.

6. Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities
The Non-Executive Directors have both a breadth and depth of skills and experience to fulfil their roles. Details of the Directors' experience and areas of expertise are outlined on pages 35 and 36. They met during the year without executives present and maintain ongoing communications with executives between formal meetings.

In addition to their general Board responsibilities, Non-Executive Directors are encouraged to be involved in specific workshops or meetings, in line with their individual areas of expertise.

The Audit Committee Chairman updates his technical and financial experience by attending workshops held by the major accounting firms.

7. Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement
The Board evaluation exercise was designed and led by the Company Secretary, working closely with the Chairman of the Board and followed the same process as last year in order to provide objectivity. The areas covered were structure and skills, operating effectiveness, operating efficiency, quality of information and ongoing development.

Individual reviews of Non-Executive Director performance were carried out with the Chairman and the Non-Executive Directors undertook a review of the performance of the Chairman. This concluded that the Chairman has an open, facilitating leadership style; demonstrates independence and objectivity; and shows a strong understanding of the business.

The Board evaluation exercise identified a number of positive areas including greater exposure of the Board during the year to members of the senior team and more involvement in the strategic development plans for the business. Although the Board and sub-committees are working well, areas highlighted for improvement included the need to develop succession planning and implement post investment reviews. These matters will be addressed during the 2018/19 financial year.

8. Promote a corporate culture that is based on ethical values and behaviour
The Group's operating principles were updated during the year and widely communicated with all employees. As an innovative food business in a highly competitive market our success depends crucially on people who care and are fully engaged to do their best for Finsbury. A common culture is evolving based upon six key points:

- Operating excellence
- Sustainable approach
- Quality and innovations
- Cost effectiveness
- Growth with our partners
- People who care

By visiting all sites during the year, the Board is able to talk to staff and observe behaviour in order to satisfy itself on the status of the culture.

An annual survey of employee engagement is carried out every two years.

Report on Corporate Governance

9. Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board
The Board is committed to high standards of corporate governance and has chosen to adopt the QCA Corporate Governance Code and to join the QCA. We review our corporate governance arrangements regularly and expect to evolve these over time.

The Board has revised its schedule of matters reserved for its decision during the year. These matters include:

- Strategy
- Acquisition policy
- Corporate governance
- Risk management
- Health and safety
- Approval of major capital expenditure
- Approval of annual budgets
- Approval of Annual Reports
- Dividend recommendations and policy

10. Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders
The Board delegates authority to three committees to assist in meeting its business objectives while ensuring a sound system of internal control and risk management. The committees meet independently of Board meetings.

Group Executive Committee

The GEC is the CEO's direct team of executives supporting him in the delivery of the strategy and running of the Company.

Audit Committee

The Audit Committee has three members, Bob Beveridge (Chairman), Zoe Morgan and Ray Duignan. The Group Finance Director and external auditors attend meetings by invitation. The Audit Committee's responsibilities include the review of the scope, results and effectiveness of the external audit, the review of half-year and annual accounts, and the review of the Company's risk management and internal control systems. The committee met three times during the year. A separate report of the Audit Committee activities is outlined on pages 40 and 41.

Remuneration Committee

The report of the Remuneration Committee is set out on pages 42 to 47. The Remuneration Committee has three members, Zoe Morgan (Chairman), Marnie Millard and Ray Duignan. The Committee is responsible for setting the remuneration arrangements, including short-term bonus and long-term incentives, for Executive Directors as well as approving, the remuneration principles for senior staff. The committee met twice during the year.

Nominations Committee

The Nominations Committee has two members, Peter Baker (Chairman) and Ray Duignan. The Nominations Committee considers succession planning, reviews the structure, size, skills, diversity and composition of the Board and nominates candidates to fill Board vacancies. The Committee met once during the year.

Going Concern

The Group has prepared a budget for the year ended 29 June 2019 and financial projections for the following two years. During the year the Group has entered into a new five-year debt facility with scope for the facility to be increased by up to a further £45.0 million, providing increased capacity for the Group to explore future growth opportunities and support its long-term investment strategy. It should be noted that current liabilities exceed current assets. The Group has a relatively conservative level of debt to earnings. Having due consideration of the projections, the level of debt, and available facilities it is the opinion of the Board that the Group has adequate resources to continue in operation for the foreseeable future and therefore that it is appropriate to prepare the Financial Statements on the going concern basis.

Peter Baker
Chairman

The Directors

The Board is made of up two Executive Directors and four independent Non-Executive Directors, and chaired by Peter Baker. The matters overseen by the Board are detailed in section 9 of the Corporate Governance Report.

Peter Baker
Non-Executive Chairman

Peter joined the Board on 1 July 2014 and is Chairman of the Nominations Committee. Peter has over 30 years' senior CEO and Board level experience within the global bakery and consumer packaged goods industry. He also chairs another Board and is a Non-Executive Director in one other business. Peter held the position of Managing Director of Maple Leaf Bakery from 2009 to 2013, moving into this position after the sale of La Fornaia Bakeries, where he was the CEO. Prior to these roles, Peter held COO and Divisional Managing Director positions at RHM in the Consumer Brands, British Bakeries and Cereals Divisions (including Rank Hovis Mills). Peter was previously a Non-Executive Director at Jordan's Cereals, now a part of Associated British Foods. He has also served as Vice President of CIAA (a European trade association for food and drink) and was on the Executive Board of FDF the UK Food and Drink Federation.

John Duffy
Chief Executive Officer

John was appointed CEO of Finsbury Food Group with effect from 30 September 2009, following a year as interim COO, and has led the turnaround of an indebted Group with a market capitalisation of only £6.0 million in 2009 to the restructured and fast growing £150 million+ market cap growth business of today. This transformation required significant operational improvements and new leadership throughout the Group as well as both a business disposal and several acquisitions. The acquisition of Fletchers Bakery Group for £56.0 million in 2014 delivered a step change in scale to £300 million+ sales and diversification into the faster growing 'out of home eating' channel.

Following an engineering degree, John's early career was in the oil industry in exploration and production with Shell International. John then completed a full-time MBA at the University of Strathclyde Business School before enjoying 10 years at Director-level in manufacturing and logistics roles at Mars, the global FMCG business. This was followed by private equity experience within the portfolio investments of both L&G Ventures and Bridgepoint e.g. as Operations Director at crisps and snacks manufacturer Golden Wonder and Managing Director of WT Foods' largest chilled foods subsidiary, Noon Products, before and after its sale to Kerry Foods.

John has Non-Executive experience in both start-up and established businesses including Denby the household pottery manufacturer.

The Directors

Stephen Boyd
Group Finance Director

Steve was appointed Group Finance Director in January 2010. Steve has spent 21 years in the food manufacturing sector and previously was Group Finance Director at Golden Wonder, subsequent to that was Group Finance Director and Chief Operating Officer at WT Foods Group Plc. Steve worked with John Duffy at both Golden Wonder and WT Foods.

Raymond Duignan
Non-Executive Director

Raymond was appointed to the Board in July 2013. He has extensive industry experience having set up a specialist investment bank, Stamford Partners, in the mid-1990s advising the European food and drink industries with clients including many blue chip companies. He is currently a Non-Executive Director of Science in Sport Plc, where he chairs the Audit Committee, and is a member of the Advisory Board of Active Private Equity Partners, the consumer focused investment group.

Marnie Millard
Non-Executive Director

Marnie was appointed to the Board on 1 February 2016. Marnie, is currently Group Chief Executive of Nichols Plc, an AIM listed branded soft drinks group, serving both the UK retail and out of home channels, as well as achieving international sales across 70 countries. Marnie joined the Nichols group in October 2012 as MD of Vimto Soft Drinks. She has worked in the soft drinks industry for the last 20 years in a number of senior roles with Macaw Soft Drinks, Refresco Gerber Ltd. She was appointed Nichols Plc Group Chief Executive in May 2013.

Bob Beveridge
Non-Executive Director

Bob was appointed to the Board on 1 July 2017. He is a Chartered Accountant with extensive financial management, city and corporate transaction experience in consumer goods and technology companies, including Cable & Wireless Communications Plc, Marlborough Stirling Plc, and McBride Plc, a European private label manufacturer. For the last 6 years he has been a portfolio Independent Director and Audit Committee Chairman and is currently Senior Independent Director on the Boards of Brady Plc and Inspiration Healthcare Plc. He also provides mentoring services to aspiring and existing Finance Directors via the Institute of Chartered Accountants. He chairs the Audit Committee.

Zoe Morgan
Non-Executive Director

Zoe was appointed to the Board on 4 July 2016. Zoe has 15 years Executive Director experience with significant retail, consumer and financial services businesses, including the role of Group Marketing Director of The Co-operative Group, HBoS Retail and Boots UK. Zoe has developed a broad commercial background in multi-site, retail, manufacturing and service businesses, with key strengths in strategy, brand management and customer relationship management. For the last 10 years she has held a portfolio of Non-Executive Directorships and is currently a Board member of Moss Bros, Kind Consumer and Kintell Ltd. She is the Chair of the Remuneration Committee.

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 28.

Dividend

An interim dividend for the six months to 31 December 2017 of 1.1p per share was paid on 27 April 2018 to shareholders on the register at the close of business on 3 April 2018. Subject to shareholder approval at the Company's AGM on 21 November 2018, the final dividend of 2.2p per share will be paid on 21 December 2018 to all shareholders on the register at 23 November 2018.

Directors and their Interests in the Company

The Directors and brief biographies are detailed on pages 35 and 36.

In accordance with the Articles of Association, Peter Baker and John Duffy 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 30 June 2018 and 1 July 2017 are set out below:

Ordinary Shares	**30 June 2018**	1 July 2017
P Baker	**86,000**	86,000
S A Boyd	**1,065,543**	1,011,455
J G Duffy	**2,343,679**	2,269,238
M Millard	**9,366**	9,366
Z Morgan	**70,028**	70,028

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 30 June 2018.

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 23 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 31 August 2018:

	Number of shares	**% of issued share capital**
Ruffer LLP	21,290,536	16.33%
Cannacord Genuity Wealth Management	12,137,609	9.31%
Investec Wealth & Investment Limited	10,850,851	8.32%
Miton Asset Management Limited	10,622,108	8.15%
Polar Capital LLP	9,893,610	7.59%
FIL Investment International	6,281,932	4.82%
London Finance & Investment Group Plc	6,000,000	4.60%

Research and Development

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

Directors and Officers' Liability Insurance

The Company maintains a Directors and Officers liability insurance policy.

Directors' Report

Financial Instruments

The Group's financial instruments comprise revolving a 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.

During the year the Group refinanced its debt facilities. The new facility is a £45.0 million revolving credit facility provided by a club of three banks – HSBC, Rabo Bank 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 £45.0 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 new facility totalling £45.0 million plus a further £45.0 million accordion is available of which £25.0 million was drawn at the balance sheet date leaving a headroom of £29.4 million, which comprise of £20.0 million on the facility plus a cash balance of £9.4 million with a further approved accordion of £45.0 million. The interest rate risk is managed through interest rate swap transactions. The Group entered into a swap for £20.0 million for five years from 3 July 2017 (fixed) at 0.455%. The total balance of swaps at 30 June 2018 is £20.0 million (2017: £nil). The counterparty to these transactions is HSBC Bank Plc.

Liquidity Risk

Short-term flexibility is available through existing bank facilities and the netting off of surplus funds. Full details of the Group's financial assets and liabilities are given in Note 21.

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 21.

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.

Political and Charitable Contributions

During the year charitable donations amounting to £9,000 (2017: £75,000) were made. No political donations were made.

Going Concern

On the basis of current financial projections and available funds and facilities, the Directors are satisfied that the Group has adequate resources to continue in operation for the foreseeable future and, therefore, consider it appropriate to prepare the Financial Statements on the going concern basis. Further details are set out in the basis of preparation.

Auditor

In accordance with Section 489 of the Companies Act 2006, a resolution for the reappointment of KPMG LLP as auditor 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 auditor is 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 14 September 2018 and was signed on its behalf by:

Stephen Boyd
Director

The GEC

The Executive Directors are responsible for implementing and achieving the strategy through the day-to-day running of the business. They are supported by a team of direct Executives on the Group Executive Committee.

Ian Chree
Group Efficiency Improvement Director

Ian joined Finsbury Food Group in 2005. He now has 22 years' experience in the food industry as well as 18 years' experience in process control in non-food manufacturing. Ian's first role in food was in engineering and operations for a prepared vegetable business, before moving to chilled high-care food manufacturing with Food Partners, where he was Managing Director. Ian moved to his current role from a position of Joint Managing Director of our Cake business.

Sat Hanspal
Group Purchasing Director

Sat joined Memory Lane Cakes in 1998 as a packaging buyer. Memory Lane was subsequently acquired by Finsbury Food Group and Sat progressed to his current position. After studying Chemical Engineering, Sat started his career with Cima Foods as a process controller. He moved to the purchasing side of the business, looking after juice procurement and logistics. Cima was acquired by Princes Foods and during his 15 years with the company, Sat progressed to Senior Buyer, before his move to Memory Lane.

Jackie Kent
Group Human Resources Director

Jackie joined Finsbury Food Group in 2015. She has over 20 years' experience in the food manufacturing sector. Before joining Finsbury, she was HR Director at Burton's Biscuit Company for a number of years, and also worked in the meat processing sector. Her early roles were operational and HR positions within Rank Hovis McDougall, having completed their graduate programme. Jackie holds a BA Hons degree from the University of Leeds, and a Diploma in Personnel Management, as well as qualifications in occupational testing.

Frances Swallow
Group Technical Director

Frances joined Finsbury Food Group in October 2009. She has worked in the food industry for over 28 years, 18 of them at Technical Executive or Director level. Previous positions include senior roles at Greencore, Fresh-Pak, Geest Prepared Foods and United Biscuits, in a range of operational, technical, manufacturing and engineering roles.

Simon Staddon
Managing Director – Bread and Morning Goods

Simon joined Finsbury Food Group in 2005 as Managing Director of the Nicholas & Harris speciality bread business. Before this he was a commercial Director at Greencore. This followed a long career at Unigate, having joined after graduating from Manchester University with a degree in Management Sciences. He held many roles within the St.Ivel division, including Sales Director. Simon has been Managing Director of Finsbury's bread business for the last 2 years.

Lawrence Trist
Managing Director – Cake

Lawrence joined Finsbury Food Group in May 2009 as Cake Sales Director, gaining promotion to his current role. He offers over 20 years' senior and Board-level experience in the UK FMCG industry. Before joining Finsbury, Lawrence was Director of Sales at Allied Bakeries, having been with the firm for seven years. Prior to this, Lawrence had sales roles in the media industry for companies such as Shop Smart and Katz media.

Audit Committee Report

Overview

The Committee met three times during the year. The external auditors attended two of these meetings at the invitation of the Committee Chairman. The Committee also met with the external auditors without the presence of Executive Directors or management.

During the year, in addition to its core responsibilities the Committee discussed the development of new M3 financial reporting system and revised the Committee's terms of reference in line with best practice.

Terms of Reference

The principle duties carried out in the year were to:

Review and monitor the integrity of the Financial Statements, reviewing significant financial reporting issues and judgements which they contain, and recommend to the Board whether the Financial Statements give a fair, balanced and understandable view of the Group's assets, liabilities and financial position.

Receive reports on and keep under review the effectiveness of the internal controls and risk management processes, carry out an annual assessment of these processes and approve statements to be included in the Annual Report concerning internal controls and risk management.

Oversee the Company's relations with the external auditors and consider and make recommendations on the appointment, reappointment and removal of the external auditors.

Monitor and review the effectiveness of the internal audit programme in the context of the overall risk management system to ensure that the internal audit is operating efficiently and effectively within the organisation, review and assess the internal audit plan and reports, recommendations and management responses.

Additional duties were to review foreign exchange, interest rate and commodity hedging policies, review and approve the Group's insurance policies, review and approve new bank facility agreements and review Health and Safety policies, practices and risk management procedures.

Financial Reporting

During the year, the Committee concluded that the Annual Report and Financial Statements, taken as whole, were fair, balanced and understandable and provided the information necessary for shareholders to assess the Group's business model, strategy and performance. During the year, the Committee considered the following key matters of judgement:

- Revenue recognition policy and the future impact of IFRS 15
- Valuation of goodwill and intangible assets
- Significant non-recurring items
- The Committee considered the budget for 2019 and the business plan for 2020/21 and the debt financing arrangements at year end and concluded that the going concern basis is appropriate.

The Committee reviewed the full-year and half-year results announcement, Annual Report and Financial Statements and considered reports from the external auditors identifying accounting or judgemental issues requiring its attention. The committee also reviewed the Strategic Report and concluded that it presented a useful and fair, balanced and understandable review of the business.

External Audit

The Committee considered the effectiveness of last year's external audit against five criteria, Qualification, Expertise and Resources, Effectiveness, Independence and Value and concluded that the audit was effective.

The Committee will assess the external auditor's performance and effectiveness for the current year through a questionnaire to be completed by Audit Committee members and the Group's senior finance team. The output from the process will be reviewed and discussed by the Audit Committee and with the external auditor at the Committee's October 2018 meeting.

Independence and Non-audit Services

The Committee agreed a new policy on the provision of non-audit services in May 2018. The general principle is that the External Auditor should not provide a non-audit service if this would have a material effect on, or relevance to, the production of the company's Financial Statements and/or involve taking decisions or making significant subjective judgement that should properly be the responsibility of management. During the year, the fees paid to the auditor, KPMG, were £180,000 (2017: £173,000) for audit services, and £207,000 (2017: 142,000) for non-audit services. No services were provided pursuant to contingent fee arrangements.

The Committee reviewed and considered the following factors to assess the objectivity and independence of KPMG:

- The auditor's procedures for maintaining and monitoring independence, including those to ensure that the partners and staff have no personal or business relationships with the Group, other than those in the normal course of business permitted by UK ethical guidance.
- The degree of challenge to management and the level of professional scepticism shown by the audit partner and the audit team throughout the process.
- The nature of non-audit work undertaken during the year and its approval in accordance with the Audit Committee's policy on non-audit services. The additional services provided during the year comprised due diligence on proposed acquisitions, pension advice on pensions fund investment procedures and tax compliance work, none of which had an effect on the Company's Financial Statements or involved executive decisions.
- A report from KPMG that they have adequate policies and safeguards in place to ensure that auditor objectivity and independence is maintained.

Audit Committee Effectiveness

In May 2018, the Committee performed a self-assessment of its effectiveness. Overall the Committee is effective but areas for improvement were identified in terms of extending the meeting times or adding in an additional meeting in the calendar.

Internal Audit

A programme of rolling internal control and risk reviews was monitored by the Committee together with follow up actions required.

Risk Management and Internal Controls

Group management prepared a report for the Committee's consideration that identified the risks and uncertainties to which the Group is exposed, the procedures in place to mitigate those risks and uncertainties and the potential impact on the Group. The Committee reviewed this report and reported its views to the Board. Following this review, the Committee, is satisfied that the Group has in place effective internal control systems and risk management.

The principal risks and uncertainties to which the Group is exposed are set out in the Strategic Report on pages 1 to 28.

During the year the Audit Committee reviewed cyber security in four areas, network security, hardware and software maintenance/updates, disaster recovery and related controls and governance. Recommendations for improvements were made and are being implemented, including an annual security review.

During the year the Committee also reviewed Health and Safety procedures and policies including resources, training and communications. A new common safety management system has been implemented.

The Committee continues to keep under review the need for a separate dedicated internal audit function in the Group. The Committee remains satisfied that the Group's system of internal control is appropriate for a Group of the size and nature of the Company and the Committee's current view is that a separate formal independent internal audit function is not required at this time. The Committee will monitor the situation closely as the Group continues to expand.

Bob Beveridge
Chairman, Audit Committee

Directors' Remuneration Report (unaudited)

Statement from the Chairman of the Remuneration Committee

Dear Shareholder

I am delighted to present the Directors' Remuneration Report as Chair of the Remuneration Committee of Finsbury Food Group for the year ended 30 June 2018.

I became the Chair of the Remuneration Committee with effect from 1 January 2018 and I would like to thank Ray Duignan for all his support during the transition and the work undertaken earlier in the year with the Committee in assessing and changing the reward structure for the Executive, which I explain further below.

Remuneration Policy

The Committee presented its first Policy to shareholders at the 2015 AGM and it demonstrated a maturing in our business and approach to setting pay and incentivising and rewarding our Executive Directors in a structured way reflecting our business strategy. At that time our policy was to focus on reward delivered through variable pay and in particular to remunerate predominantly through our Long-Term Incentive Plan ("LTIP") reflecting our growth aspirations. Fixed pay was set at a level which meant that the overall package was competitive and appropriate. Very stretching EPS targets were introduced, together with a relative TSR measure to ensure there was quality earnings growth which was reflected in our share price as compared to the market. The LTIP award was set at 200% of base salary. The Committee recognised that this was at the higher end of practice but considered this to be appropriate in light of base pay levels and the stretch in the EPS targets.

Since that time our Executive Directors have continued to deliver exceptional performance and under their leadership the Group has been transformed over recent years via a combination of organic growth and acquisition. More recently however, there have been greater challenges facing the business to deliver stretch EPS performance with a number of head winds which our Executives have handled superbly. In this context, the Committee recognises that our philosophy of "super reward" for "superstretch performance" was not appropriate in the current climate. It also recognised that the fixed pay levels did not reflect the increased complexity of the Group and the extended role and scope of responsibilities of our very experienced CEO and Group Finance Director. Most importantly was the need to retain the senior management team, and in particular the Executive Directors, by providing remuneration and performance targets which are appropriate for the current landscape.

The Committee therefore undertook a detailed exercise earlier in the year to rebalance fixed and variable pay in a way which slightly increased the expected value of the remuneration package, whilst reducing the overall maximum total compensation. This led to a reduction in the LTIP opportunity from 200% to 100%, the bonus opportunity being maintained at 100% and an increase in fixed pay of 20% for our CEO John Duffy and 16% for our GFD Steve Boyd.

We undertook extensive discussions with a majority of our shareholders following the changes and I am pleased to say that we received good support for these changes and a recognition of the rationale behind them.

Our updated Policy is provided on our website at www.finsburyfoods.co.uk/investor-relations/corporate-governance, pre-faced with a summary of the limited changes which have been made to our original 2015 Policy.

The Annual Report on Remuneration which is on pages 42 to 47 provides details of the amounts earned in respect of the year ended 30 June 2018 and how the Remuneration Policy will be operated for the year commencing 1 July 2019.

Similar to last year and as a matter of best practice, the Annual Report on Remuneration has been prepared taking into account the remuneration reporting regulations applicable to fully listed companies in the UK.

Review of the 2017-2018 Financial Year

As described earlier in the Annual Report, the Company has delivered a resilient trading performance in the face of unprecedented cost inflation of commodity inputs. The strong investment and efficiency focus have enabled the Company to cope with cost pressures and the volatile retail environment.

The 2017-2018 annual bonus was subject to an EBITDA performance metric. The Company achieved EBITDA in line with our forecast for the year. However, recognising the exceptional costs incurred in relation to the Grain D'Or closure and the absence of bonuses elsewhere in the Group, the Executive Directors have asked to waive their bonus entitlement and the Committee has agreed. This is a further demonstration of the prudent and reflective approach which both the Committee and the Executive Directors consistently take on matters of remuneration.

Awards made under the LTIP in December 2015 vested in respect of performance over the three financial years ending on 30 June 2018. These vested 88.63% in respect of the EPS element and 100% in respect of the relative TSR element, delivering an overall vesting of 94.32% of the maximum award. Our definition of Earnings Per Share is adjusted diluted EPS and for this year, adjustments included the exclusion of exceptional costs relating to the closure of our loss making sites. The Committee considered that this underlying EPS measure was a fairer reflection of the real improvement in earnings of the business over the last three years, in spite of significant increases in commodity prices. Our senior managers also participate in the LTIP and it was important to reward them for their long-term hard work and commitment to the business. These vested shares are subject to a further two year holding period. Full details of the vested awards are provided on page 45.

Awards under the LTIP were made during the year. As explained above these were made at a reduced level of 100% of salary compared to the historic levels of 200% of salary to reflect the resetting of performance targets and the rebalancing of fixed and variable pay. The awards will vest based on relative TSR performance and absolute EPS targets over the three year period to 2020. These awards are subject to a two year post vesting holding period.

Outlook for the 2018-2019 Financial Year

Details in relation to the application of the Directors' Remuneration Policy can be viewed in the investor section of the website at www.finsburyfoods.co.uk/investor-relations/corporate-governance, however, the key elements will be as follows:

- No salary increases for Executive Directors.
- Annual bonus opportunity will remain at 100% of salary. The annual bonus will continue to be based on adjusted EBITDA performance as the Committee considers this to be the most appropriate short-term measure for assessing Executives performance.
- Awards under the LTIP will be made following the announcement of our results and the Committee will discuss the performance conditions which will apply, although anticipate that this will continue to be absolute EPS targets and relative TSR against the FTSE Small Cap. The targets will be disclosed in the Remuneration Report next year. The overall maximum award will be 100% of salary.
- There were no increases to the Non-Executive Directors' basic fee or the Chairman's fee. As part of the three year review cycle for Non-Executive fees, these will be reviewed next year.

Zoe Morgan
Chairman of the Remuneration Committee

14 September 2018

Directors' Remuneration Report (unaudited)

The full policy can be viewed in the investor section of the website at www.finsburyfoods.co.uk/investor-relations/corporate-governance.

The main aim of the Company's Policy is to align the interests of Executive Directors with the Company's strategic vision and the long-term creation of shareholder value. The Company aims to provide returns to shareholders through both organic and acquisitive growth. The Policy is intended to remunerate our Executive Directors competitively and appropriately for effective delivery of this and allows them to share in this success and the value delivered to shareholders. The Policy is based on a broad set of remuneration principles:

- Promote shareholder value creation
- Support the business strategy
- Promote sound risk management
- Ensure that the interests of the Directors are aligned with the long-term interests of shareholders
- Deliver a competitive level of pay for the Directors without paying more than is necessary to recruit and retain individuals
- Ensure that the Executive Directors are rewarded for the contribution to the success of the Group and share in the success delivered to shareholders and
- Motivate the Directors to deliver enhanced sustainable performance

Unaudited Annual Report on Remuneration

Single Total Figure of Remuneration

The tables below detail the total remuneration **earned** by each Director in respect of the financial years ended 30 June 2018 and 1 July 2017:

2018	Salaries/fees £000	Taxable benefits £000	Annual bonus £000	LTIP[1] £000	Total remuneration £000
Executive Directors					
J G Duffy	403	12	-	818	1,233
S A Boyd	284	12	-	595	891
	687	24	-	1,413	2,124
Non-Executive Directors					
P Baker	85	-	-	-	85
R Beveridge[2]	54	-	-	-	54
R P E Duignan	58	-	-	-	58
M J Millard	53	-	-	-	53
Z Morgan	56	-	-	-	56
	306	-	-	-	306
	993	**24**	**-**	**1,413**	**2,430**

2017	Salaries/fees £000	Taxable benefits £000	Annual bonus £000	LTIP £000	Total remuneration £000
Executive Directors					
J G Duffy	349	12	304	1,192	1,857
S A Boyd	253	12	220	755	1,240
	602	24	524	1,947	3,097
Non-Executive Directors					
P Baker	75	-	-	-	75
R P E Duignan	60	-	-	-	60
M J Millard	53	-	-	-	53
Z Morgan	53	-	-	-	53
	241	-	-	-	241
	843	**24**	**524**	**1,947**	**3,338**

1. Long-term incentive awards vested with respect to the performance period ended 1 July 2017 and 30 June 2018 are subject to a two-year holding period. The LTIP values for the year ended 30 June 2018 were based on the average three month share price to the financial year end of 124.83p per share. The LTIP values for the year ended 1 July 2017 have been updated from the prior year to reflect the actual share price value at vesting which was 107.50p per share.
2. Appointed to the Board on 1 July 2017.

Directors' Remuneration Report (unaudited)

Notes to the Table

Base Salaries

The base salaries for the Executive Directors are set with effect from 1 October each year. The salaries in the financial years ended 1 July 2017 and 30 June 2018 were as follows:

Executive Director	From 1 October 2016	From 1 October 2017	Percentage increase
J G Duffy	£350,265	£420,000	20%
S A Boyd	£254,500	£294,200	16%

The rationale for the increase in base salaries, and the related reduction in LTIP award, is set out in the Statement from the Chairman of the Remuneration Committee on page 42.

Taxable Benefits

The taxable benefits for the Executive Directors in the year included a car allowance and private medical insurance. The Executive Directors do not receive a pension allowance.

Annual Bonus

The annual bonus is the total value of the bonus earned in respect of the financial year (including the amount delivered in shares). For the financial year ended 30 June 2018 Executive Directors were able to earn a bonus of up to 100% of annual base salary subject to the achievement of stretching EBITDA performance targets.

The following table sets out the bonus pay-out to the Executive Directors for 2017-18 and how this reflects EBITDA performance for the year.

Performance measure	Actual performance	Resulting level of award for each Executive as a percentage of salary*	Bonus to be paid
Earnings before interest, tax, depreciation and amortisation (EBITDA)	EBITDA £25,600,000	25%	Nil

The Executive Directors have waived this bonus as the Group has incurred significant exceptional costs in respect of the closure of two sites during the year.

Long-term Incentives

Awards granted on 4 December 2015 were based on performance over the three financial years to 30 June 2018 and vested as to the amounts set out below. These awards are subject to a two year holding period.

	Performance conditions		Actual performance (adjusted diluted EPS)	% of this element vesting	% of award
50% of the award subject to adjusted diluted Earnings Per Share in the final year of the performance period	**Adjusted diluted EPS**	**% vesting**	9.81p	88.63%	44.32%
	Below 7.65p	0			
	7.65p	25%			
	Between 7.65p and 10.20p	Straight-line vesting			
	10.20p	100%			
50% of the award based upon Relative Total Shareholder Return against the FTSE Small Cap (excluding investment trusts) ("TSR") over the performance period	**Relative TSR ranking**	**% vesting**	Above upper quartile	100.00%	50.00%
	Below median	0			
	Median	25%			
	Between median and upper quartile	Straight-line vesting			
	10.20p	100%			
Total % of award vesting					**94.32%**

In arriving at the adjusted EPS out-turn of 9.81p the Committee has excluded the exceptional costs relating to the closure of two sites.

	Number of shares granted	Number of shares vesting	Value of LTIP shares vesting[1]
J G Duffy	695,095	655,613	£818,401
S A Boyd	505,051	476,364	£594,645

1. The LTIP has been valued based on the three month average share price to the financial year end of 124.83p per share.

Directors' Remuneration Report (unaudited)

Chairman and Non-Executive Director Fees

Details of Chairman and Non-Executive Directors' fees for 2017-18 are as set out below:

Chairman fee	Non-Executive Director fee	Chairman of the Remuneration Committee	Member of the Remuneration Committee	Chairman of the Audit Committee	Member of the Audit Committee
£85,000	£50,000	£5,000	£2,500	£5,000	£2,500

Payments Made to Former Directors during the Year

No payments were made in the year to any former Director of the Company.

Payments for Loss of Office Made During the Year

No payments for loss of office were made in the year to any Director of the Company.

Statement of Directors' Shareholding and Share Interests

The interests of the Directors and their immediate families in the Company's ordinary shares as at 30 June 2018 and 1 July 2017 were as follows:

	30 June 2018 Number	1 July 2017 Number
Executive Directors		
J G Duffy	**2,343,679**	2,269,238
S A Boyd	**1,065,543**	1,011,455
Non-Executive Directors		
P Baker	**86,000**	86,000
R P E Duignan	**-**	-
M J Millard	**9,366**	9,366
Z Morgan	**70,028**	70,028
R Beveridge	**-**	-

The current personal shareholdings of J G Duffy and S A Boyd equate to circa 6.6 and 4.3 times salary respectively.

The interests of the Directors and their immediate families in the Company's ordinary shares did not change between 30 June 2018 and the date these accounts were signed on 14 September 2018.

The interests of each Executive Director of the Company as at 30 June 2018 and 1 July 2017 in the Company's share schemes were as follows:

Executive Director	Number of options at 1 July 2017	Granted	Lapsed	Number of options at 30 June 2018
J G Duffy	1,137,898	-	(29,017)	**1,108,881**
J G Duffy	695,095	-	-	**695,095**
J G Duffy	515,464	-	-	**515,464**
J G Duffy	-	410,423	-	**410,423**
J G Duffy	-	27,777	-	**27,777**
S A Boyd	721,217	-	(18,392)	**702,825**
S A Boyd	505,051	-	-	**505,051**
S A Boyd	374,532	-	-	**374,532**
S A Boyd	-	287,492	-	**287,492**
S A Boyd	-	27,777	-	**27,777**
	3,949,257	753,469	(47,409)	**4,655,317**

Details of the LTIP awards granted on 27 October 2017 are given in the table below:

	Number of shares*	Basis of award**	Performance period	Performance conditions
J G Duffy	438,200	100% of salary	3 financial years from 2 July 2017	50% subject to EPS growth and 50% subject to relative TSR (further details below).
S A Boyd	315,269	100% of salary	3 financial years from 2 July 2017	

* The total number of shares awarded include 27,777 options under the Company Share Option Plan (CSOP) for both J G Duffy and S A Boyd.

** The basis of award for the awards under the LTIP was calculated using the average price of the shares over the three business days following the announcement on 18 September 2017 of the Company's preliminary results for the year ended 1 July 2017.

** The basis of award for the CSOP options of 27,777 awarded to both J G Duffy and S A Boyd was calculated using the closing price of the shares of the day preceding the award date of 27 October 2017.

Awards will be subject to a further two year holding period following the end of the performance period.

The vesting of the LTIP options is linked to the vesting of the CSOP options, if the CSOP awards are exercised at a gain then the LTIP awards will be scaled back at the same value to ensure that the total pre-tax value delivered to the Executive Directors remains unchanged.

Vesting of 50% of the award will be based upon the amount of the adjusted diluted Earnings Per Share (EPS) delivered in the final Financial Year of the performance period. Below the threshold vesting target of 10.29p, none of this component of the award will vest. 25% of this component will vest if adjusted diluted EPS is 10.29p, with 100% vesting at 12.46p, and vesting determined on a straight-line basis between these figures.

Vesting of 50% of the award will be based upon Relative TSR against the FTSE Small Cap (excluding investment trusts) over the performance period. At below median relative TSR ranking, none of this component of the award will vest. 25% of this component will vest at median ranking, with 100% vesting at upper quartile or above ranking, and vesting determined on a straight-line basis between these points.

The awards are also subject to a general performance underpin assessing factors, including ROCE and other financial indicators of performance over the performance period, at the discretion of the Remuneration Committee.

Approval

This Report was approved by the Board on 14 September 2018 and signed on its behalf by:

Zoe Morgan
Chairman of the Remuneration Committee

Statement of Directors' Responsibilities in Respect of the Annual Report and the Financial Statements

The Directors are responsible for preparing the Annual Report and the Group and Parent Company Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company Financial Statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the Group Financial Statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and have elected to prepare the Parent Company Financial Statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

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 Group and Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company Financial Statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable, relevant, reliable and prudent;
- For the Group Financial Statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- For the Parent Company Financial Statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Financial Statements;
- Assess the Group and Parent 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 Group or the Parent 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 Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its 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 Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

By Order of the Board
Stephen Boyd
Director

14 September 2018

Independent Auditor's Report to the Members of Finsbury Food Group Plc

1. Our Opinion is Unmodified

We have audited the Financial Statements of Finsbury Food Group Plc ("the Company") for the 52 week period ending 30 June 2018 which comprise the Consolidated Statement of Profit and Loss and Other Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Changes in Equity, Consolidated Cash Flow Statement, Company Balance Sheet, Company Statement of Changes in Equity, and the related notes, including the accounting policies in Notes 1 and 30.

In our Opinion:

- The Financial Statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 30 June 2018 and of the Group's profit for the 52 week period then ended;
- The Group Financial Statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- The Parent Company Financial Statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- The Financial Statements 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 Group in accordance with, UK ethical requirements including FRC Ethical Standard as applied to listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Materiality:		£850,000 (2017: £875,000)
Group Financial Statements as a whole		5% of adjusted profit before tax (2017: 5% of adjusted profit before interest and tax)
Coverage		99% (2017: 90%) of Group profit after tax
Risks of material misstatement		**vs 2017**
Recurring risks	Recoverability of Group goodwill and of Parent's investment in subsidiaries	

2. Key Audit Matters: Our Assessment of Risks of Material Misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the Financial Statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. This matter was addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter. In arriving at our audit opinion above, the key audit matter is as follows:

	The risk	Our response
Recoverability of Group goodwill and of Parent's investment in subsidiaries (Group's goodwill: £69.2 million; 2017: £69.2 million Parent investment in subsidiaries: £101.0 million; 2017: £100.8 million) Refer to page 59 (Accounting Policy) and page 70 (Financial Disclosures).	**Forecast-based valuation:** In planning our audit we identified risks that may have indicated risks of irrecoverability of the Group's significant goodwill balance, potential changes in customer demand and preferences in certain markets and general cost inflation across the industry. Assessing the recoverability of goodwill involves forecasting and discounting future cash flows, which rely on the Directors' assumptions and estimates of future trading performance. Parent Company's investment is assessed in a similar manner.	Our procedures included: • **Benchmarking assumptions:** We challenged the discount rate used in the forecasts by benchmarking this against similar companies. • **Sensitivity analysis:** We performed sensitivity analysis on key assumptions including: sales growth; margins (incorporating potential adverse pricing as a result of changes to future tariff rates); and the discount rate. • **Tests of detail:** We compared the carrying amount of the investments with the net assets value of the respective subsidiary, being an approximation of their minimum recoverable amount, to identify whether the net asset values were in excess of the carrying amounts. • **Our sector experience:** Where the investment value was not supported by the net assets of the subsidiary we obtained the forecasts used by the Directors' in their assessment of the recoverability of their investments. We challenged the forecasts by agreeing the brought forward position to actual results and, based on our understanding of the Company and sector, assessed whether expected future conditions had been incorporated.

We continue to perform procedures over revenue however, following reassessment of the associated risks, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.

Independent Auditor's Report to the Members of Finsbury Food Group Plc

3. Our Application of Materiality and an Overview of the Scope of our Audit

Materiality for the Group Financial Statements as a whole was set at £850,000 (2017: £875,000), determined with reference to a benchmark of Group profit before tax and one-off costs for closure of operations £17.5m, of which it represents 5% (2017: Group profit before interest and tax, of which it represents 5%).

Materiality for the Parent Company Financial Statements as a whole was set at £608,000 (2017: £656,000), determined with reference to a benchmark of Company total assets, of which it represents 0.5% (2017: 0.5%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £42,000 (2017: £43,750), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 8 (2016: 8) reporting components, which include the Parent Company, we subjected 6 (2016: 7) to full scope audits for Group reporting purposes.

We conducted reviews of financial information (including enquiry) at a further 1 (2017: 1) non-significant component. The component for which we performed work other than audits for Group reporting purposes was not individually significant but was included in the scope of our Group reporting work in order to provide further coverage over the Group's results.

The components within the scope of our work accounted for the following percentages of the Group's results.

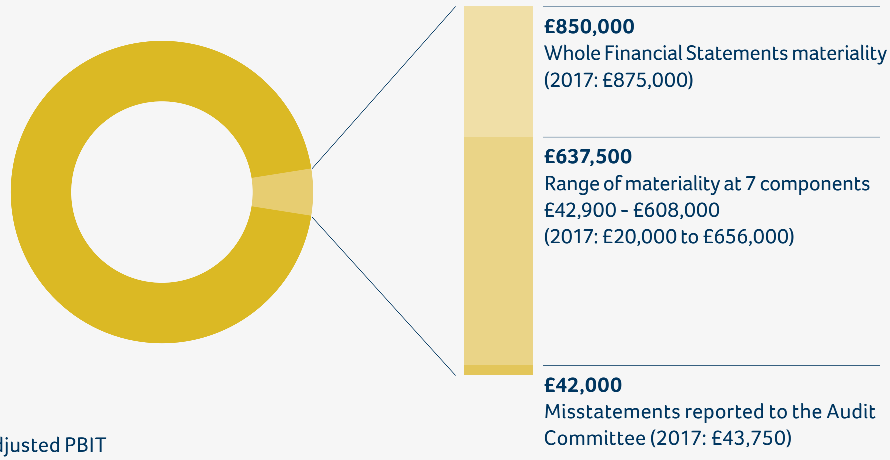
The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks and the information to be reported back. The Group team approved the component materialities, which ranged from £42,900 to £608,000 (2017: £20,000 to £456,000), having regard to the mix of size and risk profile of the Group across the components. The work on 4 of the 7 components (2017: 4 of the 8 components) was performed by component auditors and the rest by the Group audit team.

The Group audit team visited 4 (2017: 4) component locations in the UK. At these visits, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.

Independent Auditor's Report to the Members of Finsbury Food Group Plc

Adjusted Profit before Tax
£17.6 million (2017: £17.6 million)

Group Materiality
£850,000 (2017: £875,000)

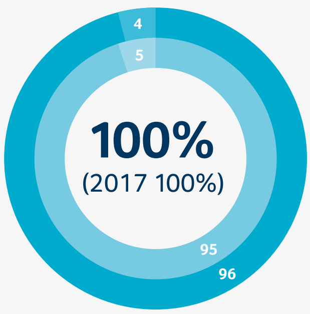


- Adjusted PBIT
- Group materiality

Group Revenue

Total Profits and Losses that made up Group Profit before Tax

Group Total Assets



- Full scope for Group audit purposes 2018
- Specified risk-focused audit procedures 2018
- Full scope for Group audit purposes 2017
- Specified risk-focused audit procedures 2017
- Residual components

Independent Auditor's Report to the Members of Finsbury Food Group Plc

4. We have nothing to Report on 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.

5. We have nothing to Report on the other Information in the Annual Report

The Directors are responsible for the other information presented in the Annual Report together with the Financial Statements. Our opinion on the Financial Statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information 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 other information.

Strategic Report and Directors' Report
Based solely on our work on the other information:

- We have not identified material misstatements in the Strategic Report and the Directors' Report;
- In our opinion the information given in those reports for the financial year is consistent with the Financial Statements; and
- In our opinion those reports have been prepared in accordance with the Companies Act 2006.

6. We have nothing to Report on the other 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 by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- The Parent Company Financial Statements and the part of the Directors' Remuneration Report which we were engaged to audit 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.

We have nothing to report in these respects.

7. Respective Responsibilities

Directors' Responsibilities
As explained more fully in their statement set out on page 48, the Directors are responsible for: the preparation of the Financial Statements including 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, whether due to fraud or error; assessing the Group and, Parent 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 Group or the Parent 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.

8. 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.

Jeremy Thomas
(Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
3 Assembly Square, Britannia Quay, Cardiff, CF10 4AX

14 September 2018

Financial Statements
Consolidated Statement of Profit and Loss and Other Comprehensive Income
for the 52 weeks ended 30 June 2018 and 52 weeks ended 1 July 2017

	Note	2018 £000	2017 £000
Revenue	2	**303,600**	314,296
Cost of sales		**(211,511)**	(216,493)
Gross profit		**92,089**	97,803
Administrative expenses – underlying		**(73,785)**	(80,239)
Administrative expenses – significant and non-recurring		**(13,067)**	(4,000)
Administrative expenses	3	**(86,852)**	(84,239)
Results from operating activities		**5,237**	13,564
Finance income	7	**167**	555
Finance cost	7	**(929)**	(1,081)
Net finance cost		**(762)**	(526)
Profit before tax and share of losses of equity accounted investees		**4,475**	13,038
Share of losses of equity accounted investees		**-**	(22)
Profit before tax		**4,475**	13,016
Taxation	8	**(1,311)**	(2,959)
Profit for the financial year		**3,164**	10,057
Other comprehensive (expense)/income			
Items that will not be reclassified to profit and loss			
Remeasurement on defined benefit pension scheme	13	**(172)**	(4,031)
Movement in deferred taxation on pension scheme liability	20	**29**	621
Other comprehensive expense for the financial year, net of tax		**(143)**	(3,410)
Total comprehensive income for the financial year		**3,021**	6,647
Profit attributable to:			
Equity holders of the Parent		**2,180**	9,048
Non-controlling interest		**984**	1,009
Profit for the financial year		**3,164**	10,057
Total comprehensive income attributable to:			
Equity holders of the Parent		**2,037**	5,638
Non-controlling interest		**984**	1,009
Total comprehensive income for the financial year		**3,021**	6,647
Earnings per ordinary shares			
Basic	9	**1.7**	7.1
Diluted	9	**1.6**	6.9

The Notes on pages 57 to 86 form an integral part of these Financial Statements.

Consolidated Statement of Financial Position

at 30 June 2018 and 1 July 2017

	Note	2018 £000	2017 £000
Non-current assets			
Intangibles	10	**83,313**	80,302
Property, plant and equipment	11	**49,922**	48,857
Investments in equity accounted investees	12	**-**	269
Other financial assets	12	**28**	28
Deferred tax assets	20	**3,890**	4,063
		137,153	133,519
Current assets			
Inventories	14	**13,456**	12,684
Trade and other receivables	15	**44,575**	50,018
Cash and cash equivalents	16	**9,363**	3,024
Other financial assets – fair value of derivatives	12	**558**	560
		67,952	66,286
Total assets		**205,105**	199,805
Current liabilities			
Other interest-bearing loans and borrowings	17	**(24,685)**	(14,586)
Trade and other payables	19	**(55,598)**	(60,461)
Provisions	19	**(3,798)**	(18)
Other financial liabilities – fair value of derivatives	12	**(40)**	(234)
Current tax liabilities		**-**	(1,650)
		(84,121)	(76,949)
Non-current liabilities			
Other interest-bearing loans and borrowings	17	**-**	(5,800)
Provisions and other liabilities	19	**(4,623)**	(221)
Deferred tax liabilities	20	**(1,243)**	(1,335)
Pension fund liability	13	**(10,536)**	(10,498)
		(16,402)	(17,854)
Total liabilities		**(100,523)**	(94,803)
Net assets		**104,582**	105,002
Equity attributable to equity holders of the Parent			
Share capital	23	**1,304**	1,304
Share premium account	22	**64,956**	64,956
Capital redemption reserve	22	**578**	578
Employee share reserve	22	**(3,282)**	(3,585)
Retained earnings	22	**38,954**	39,862
		102,510	103,115
Non-controlling interest		**2,072**	1,887
Total equity	22	**104,582**	105,002

These Financial Statements were approved by the Board of Directors on 14 September 2018 and were signed on its behalf by:

Stephen Boyd
Director

Registered Number 00204368

The Notes on pages 57 to 86 form an integral part of these Financial Statements.

Consolidated Statement of Changes in Equity

for the 52 weeks ended 30 June 2018 and 1 July 2017

	Note	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 at 2 July 2016		1,304	64,956	578	(3,920)	36,569	1,583	101,070
Profit for the financial year		-	-	-	-	9,048	1,009	10,057
Other comprehensive (expense)/income:								
Remeasurement on defined benefit pension	13	-	-	-	-	(4,031)	-	(4,031)
Deferred tax movement on pension scheme remeasurement	20	-	-	-	-	621	-	621
Total other comprehensive expense		**-**	**-**	**-**	**-**	**(3,410)**	**-**	**(3,410)**
Total comprehensive income for the period		**-**	**-**	**-**	**-**	**5,638**	**1,009**	**6,647**
Transactions with owners, recorded directly in equity:								
Shares issued from EBT	23	-	-	-	335	(158)	-	177
Impact of share based payments	23	-	-	-	-	1,240	-	1,240
Deferred tax on share options		-	-	-	-	47	-	47
Foreign exchange translation differences		-	-	-	-	171	-	171
Dividend paid	24	-	-	-	-	(3,645)	(705)	(4,350)
Balance at 1 July 2017		**1,304**	**64,956**	**578**	**(3,585)**	**39,862**	**1,887**	**105,002**
Balance at 1 July 2017		1,304	64,956	578	(3,585)	39,862	1,887	105,002
Profit for the financial year		-	-	-	-	2,180	984	3,164
Other comprehensive (expense)/income:								
Remeasurement on defined benefit pension	13	-	-	-	-	(172)	-	(172)
Deferred tax movement on pension scheme remeasurement	20	-	-	-	-	29	-	29
Total other comprehensive expense		**-**	**-**	**-**	**-**	**(143)**	**-**	**(143)**
Total comprehensive income for the period		**-**	**-**	**-**	**-**	**2,037**	**984**	**3,021**
Transactions with owners, recorded directly in equity:								
Shares issued from EBT	23	-	-	-	303	(217)	-	86
Impact of share based payments	23	-	-	-	-	1,138	-	1,138
Deferred tax on share options		-	-	-	-	58	-	58
Foreign exchange translation differences		-	-	-	-	34	-	34
Dividend paid	24	-	-	-	-	(3,958)	(799)	(4,757)
Balance at 30 June 2018		**1,304**	**64,956**	**578**	**(3,282)**	**38,954**	**2,072**	**104,582**

The Notes on pages 57 to 86 form an integral part of these Financial Statements.

Consolidated Cash Flow Statement

for the 52 weeks ended 30 June 2018 and 1 July 2017

	Note	2018 £000	2017 £000
Cash flows from operating activities			
Profit for the financial year		**3,164**	10,057
Adjustments for:			
Taxation	8	**1,311**	2,959
Net finance costs	7	**762**	526
Depreciation	11	**7,041**	6,948
Amortisation of intangibles	10	**715**	537
Significant non-recurring items	4	**13,067**	4,000
Share of losses of equity accounted investees after tax	12	**-**	22
Contributions by employer to pension scheme	13	**(411)**	(200)
Change in fair value of foreign exchange contracts	12	**(49)**	71
Operating profit before changes in working capital		**25,600**	24,920
Changes in working capital:			
Increase in inventories		**(757)**	(39)
Decrease in trade and other receivables		**6,235**	153
Decrease in trade and other payables		**(4,160)**	(2,566)
Cash generated from operations before costs of disposals and acquisitions		**26,918**	22,468
Costs relating to closure of bakeries and acquisitions		**(4,594)**	-
Interest paid		**(634)**	(892)
Tax paid		**(3,338)**	(2,650)
Net cash from operating activities		**18,352**	18,926
Cash flows from investing/divesting activities			
Purchase of property, plant and equipment		**(12,606)**	(12,542)
Disposal of property, plant and equipment		**768**	-
Purchase of companies/investments		**-**	(80)
Net cash used in investing activities		**(11,838)**	(12,622)
Cash flows from financing activities			
Repayment of invoice discounting	18	**(11,646)**	822
Drawdown of revolving credit	18	**25,000**	-
Repayment of mortgage and bank loans	18	**(8,794)**	(2,937)
Repayment of asset finance liabilities	18	**(57)**	(133)
Options exercised/(purchase) of shares by employee benefit trust		**86**	177
Dividend paid to non-controlling interest	24	**(799)**	(705)
Dividend paid to shareholders	35	**(3,958)**	(3,645)
Net cash from financing activities		**(168)**	(6,421)
Net increase/(decrease) in cash and cash equivalents		**6,346**	(117)
Opening cash and cash equivalents		**3,024**	3,024
Effect of exchange rate fluctuations on cash held		**(7)**	117
Cash and cash equivalents at end of period	16	**9,363**	3,024

The Notes on pages 57 to 86 form an integral part of these Financial Statements.

Notes to the Consolidated Financial Statements

(forming part of the Financial Statements)

Presentation of Financial Statements

Basis of Preparation

These accounts cover the 52 week period ended 30 June 2018 (prior financial year is the 52 week period ended 1 July 2017). The Group Financial Statements consolidate those of the Company and its subsidiaries (together referred to as the "Group"). The Company is a public company which is incorporated, domiciled and registered in the UK.

The Group Financial Statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"). The Financial Statements for the Company have been prepared in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"), these are presented on pages 87 to 96.

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 next 12 months and the foreseeable future.

The Group meets its funding requirements through internal cash generation and bank credit facilities, which are committed until February 2023. Committed banking facilities are £45.0 million plus a further £45.0 million accordion, of which £25.0 million were drawn at the year end, with a net debt of £15.6 million. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, including the possible effect of the UK's decision to withdraw from the EU, show that the Group will be able to operate within its current bank facilities. The Group has a relatively conservative level of debt to earnings. As a result, the Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The Board reviews the Group's covenants on a regular basis to ensure that it has adequate facilities to cover its trading and banking requirements with an appropriate level of headroom. The forecasts are based on management's best estimates of future trading. There has been no breach of covenants during the year and none expected for the foreseeable future. All covenant tests were passed at the year end.

After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in the preparation of the Financial Statements. Accordingly, the Board continues to adopt the going concern basis in preparing the Financial Statements for both the Group and the Parent Company. The Financial Statements have been prepared under the historical cost convention, as modified by the revaluation of derivative financial instruments and pension scheme assets.

Critical Accounting Estimates and Judgements

The Group is required to make estimates and assumptions concerning the future. These estimates and judgements are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. Accounting estimates and judgements have been required for the production of these Financial Statements. The following are those that are deemed to require the most complex judgements about matters that have the most significant effect on the amounts recognised in the Financial Statements.

- The Group has one defined benefit pension scheme. The net deficit or surplus is the difference between the plan assets and plan liabilities at the period end date. The valuation of the assets and liabilities is based on a number of judgements. The assets are based on market value at the period end date, the liabilities are based on actuarial assumptions such as discount, inflation and mortality rates. The assumptions applied are based on advice provided by the scheme's actuary in accordance with IAS 19 (Revised), further detail can be found in Note 13.
- A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. The deferred tax asset recognised for losses relate to acquired businesses. Based on current and forecast levels of profitability, the losses are expected to be utilised within 3 years.
- The Group recognises provisions where an obligation exists at the period end date and a reliable estimate can be made. Provisions for restructuring, reorganisation and closure of the Grain D'Or site and pension augmentation have been recognised in these Financial Statements. Estimates for closure and reorganisation have been made across property leases and contracts, property and people related costs and legal and professional costs using latest information on the site exit plan. The pension provision relates to a contractual liability for pension augmentation that has been valued by the pension scheme actuaries. See Note 13 for further detail.

Notes to the Consolidated Financial Statements

1. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated Financial Statements, except as explained in the basis of preparation, which addresses any changes in accounting policies resulting from new or revised standards.

Basis of Consolidation

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the Group takes into consideration the potential voting rights. The acquisition date is the date on which control is transferred to the acquirer. The Financial Statements of subsidiaries are included in the consolidated Financial Statements from the date that control commences until the date that control ceases. The accounting policies of new subsidiaries are changed when necessary to align them with the policies adopted by the Group. Intra-group balances and transactions are eliminated in preparing the consolidated Financial Statements.

Lightbody Stretz Limited which is 50% owned by the Group has been consolidated into the Group accounts as a subsidiary with a corresponding non-controlling interest on the basis that the Group has the controlling interest. Control arises by virtue of the fact that Lightbody Group Limited, a wholly owned subsidiary of Finsbury Food Group, has a majority of voting rights arising from an agreement between Lightbody Group Limited and Philippe Stretz, the owner of the remaining 50%. Note 2 showing Europe under geographical split by country of origin shows the revenue, operating profit, assets and liabilities of Lightbody Stretz Limited.

Business Combinations

The acquisition method of accounting is used in accounting for the acquisition of businesses. In accordance with IFRS 3 Business Combinations, the assets and liabilities of the acquired entity are measured at fair value. When the initial accounting for a business combination is determined provisionally, any adjustments to the provisional values allocated are made within twelve months of the acquisition date and are effected from the date of acquisition.

Foreign Currency

Transactions in foreign currencies are translated to Sterling at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the period end date are retranslated to Sterling at the foreign exchange rate ruling at that date.

Any exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were initially recorded are recognised in the Consolidated Statement of Profit and Loss in the period in which they arise.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to Sterling, at foreign exchange rates ruling at the period end date. The revenues and expenses of foreign operations are translated at an average rate for the year where this rate approximates to the foreign exchange rates ruling at the dates of the transactions.

Derivative Financial Instruments

The Group has derivative financial instruments in respect of interest rate swaps and foreign exchange hedges. The Group does not hold derivative financial instruments for trading purposes. The existing interest rate swaps and foreign exchange hedges used by the Group while they function as hedges, do not meet the criteria for hedge accounting set out by IAS 39, and have thus been treated as financial assets and liabilities which are carried at their fair value in the Consolidated Statement of Financial Position. Fair value is deemed to be market value, which is provided by the counterparty at the year end date.

Changes in the market value of interest rate swaps have been recognised through the Consolidated Statement of Profit and Loss as finance income or cost. Changes in the market value of foreign exchange hedges have been recognised through the Consolidated Statement of Profit and Loss within administrative costs.

Non-derivative Financial Instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Unless otherwise indicated, the carrying amounts of the Group's financial assets and liabilities are a reasonable approximation of their fair values.

Trade and other Receivables

The value of trade and other receivables is the amount that would be received if the receivable was paid on the period end date which is a close approximation to amortised cost.

Trade and other Payables

The value of trade and other payables is the value that would be payable to settle the liability at the period end date.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances. Bank overdrafts that are repayable on demand and which form an integral part of the Group's cash management are included as a component of cash and cash equivalents.

Interest-bearing Borrowings

Interest-bearing borrowings are stated at amortised cost using the effective interest method.

1. Significant Accounting Policies (continued)

Property, Plant and Equipment

Recognition and Measurement

Items of property, plant and equipment are measured at cost or fair value at the date of acquisition, less accumulated depreciation and impairment provisions. Costs include expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour and any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Depreciation

Depreciation is provided to write off the cost, less estimated residual value, of the property, plant and equipment by equal instalments over their estimated useful economic lives to the Consolidated Statement of Profit and Loss. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. The depreciation rates used are as follows:

Freehold buildings	2%-20%	Plant and equipment	6%-33%
Leasehold property	Up to the remaining life of the lease	Assets under construction	Nil
Fixtures and fittings	10%-33%	Motor vehicles	25%-33%

Impairment reviews of fixed assets are undertaken if there are indications that the carrying values may not be recoverable.

Leased Assets

Leases under the terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Assets acquired by finance lease and hire purchase are depreciated over the lease term or their useful lives.

Obligations under finance leases are included in liabilities net of the finance charge allocated to future periods. The finance element of the rental payment is charged to the Consolidated Statement of Profit and Loss as finance expense so as to produce a constant periodic rate of charge on the net obligations outstanding in each period.

Other leases are operating leases and the leased assets are not recognised on the Group's Consolidated Statement of Financial Position.

Operating Lease Payments

Payments made under operating leases are recognised in the Consolidated Statement of Profit and Loss on a straight-line basis over the term of the lease.

Equity Accounted Investees

Equity Accounted Investees (Associates) are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity.

Application of the Equity Method to Associates and Joint Ventures

Equity Accounted Investees are accounted for using the equity method (equity accounted investees) and are initially recognised at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated Financial Statements include the Group's share of the total comprehensive income and equity movements of equity accounted investees, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an investee.

Intangible Assets and Goodwill

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment. Intangible assets are capitalised separately from goodwill as part of a business combination, only if the fair value can be measured reliably on initial recognition and if the future economic benefits are expected to flow to the Group. All intangible assets recognised are considered to have finite lives and are amortised on a straight-line basis over their estimated useful economic lives that range from 15 to 20 years. Goodwill arises when the fair value of the consideration for the business exceeds the fair value of the net assets acquired. Where the excess is negative (negative goodwill), the amount is taken to retained earnings. Goodwill is capitalised and subject to impairment reviews both annually and where there are indications that the carrying value may not be recoverable.

Notes to the Consolidated Financial Statements

1. Significant Accounting Policies (continued)

Impairment
The carrying amounts of the Group's intangible assets and goodwill are reviewed at each period end date to determine whether there is an indication of impairment. Intangible assets and goodwill are considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill and intangible assets that have an indefinite useful life, the recoverable amount is estimated at each period end date.

An impairment loss would be recognised whenever the carrying amount of an intangible asset, goodwill or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the Consolidated Statement of Profit and Loss.

Calculation of Recoverable Amount
The recoverable amount is the greater of the asset's fair value less costs to sell and its value in use. In assessing an assets' value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Inventories
Inventories are measured at the lower of cost and net realisable value. Cost is determined on the first-in first-out basis, and includes all direct costs incurred and attributable production overheads. Net realisable value is based upon estimated selling price allowing for all further costs of completion and disposal. Specific provisions are made against old and obsolete stock taking the value to zero or an estimated reduced value based on the most likely route for disposal of each particular item of stock.

Employee Benefits
Defined Benefit Plans
Memory Lane Cakes Ltd operates a defined benefit pension scheme and the pension costs are charged to the Consolidated Statement of Profit and Loss and Other Comprehensive Income in accordance with IAS 19 (revised), with current and past service cost being recognised as an administrative expense, interest on assets and liabilities is shown as finance income or a finance cost in the Consolidated Statement of Profit and Loss. The remeasurements are recognised in full in Other Comprehensive Income.

Defined Contribution Plans
The costs of contributing to defined contribution and personal pension schemes are charged to the Consolidated Statement of Profit and Loss as an administrative expense in the period to which they relate.

Share Based Payment Transactions
The value, as at the grant date, of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted.

Revenue
Revenue represents the amounts derived from the sale of bakery products. Revenue is the invoiced value of consideration received or receivable excluding value added tax, trade discounts and the cost of price promotions and sales related rebates known as over-riders. Revenue is recognised upon despatch of goods. The nature and timing of promotions and overriders is typically known, accruals are established at the time of sale based on information available and management's expectations of the amounts necessary to meet the claims of customers.

Segmental Reporting
An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All segments' operating results are reviewed regularly by the Group's Board of Directors. The Group's Chief Operating Decision Maker is considered to be the Board.

Licence Fees
Payments made for licence fee charges are recognised under cost of sales in the Consolidated Statement of Profit and Loss in the period to which they relate. Any charges relating to future years are deferred and recognised in the Consolidated Statement of Profit and Loss under cost of sales over the life of the contract.

Finance Income and Cost
Finance costs comprise loan interest payable, interest payable and finance charges on finance leases recognised using the effective interest method, unwinding of the discount on provisions and deferred consideration, interest on the net defined benefit pension plan position and adverse changes in the fair value of interest rate swaps.

Finance income comprises interest receivable on funds invested and favourable changes in the fair value of interest rate swaps. Interest income is recognised in Consolidated Statement of Profit and Loss as it accrues, using the effective interest method.

1. Significant Accounting Policies (continued)

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the Consolidated Statement of Profit and Loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the period end date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for:

- The initial recognition of goodwill;
- The initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination; and
- The differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the period end date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

Research and Development Expenditure

The expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the Consolidated Statement of Profit and Loss as incurred.

2. Revenue and Segment Information

Operating segments are identified on the basis of internal reporting and decision making. The Group's Chief Operating Decision Maker is considered 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 uses adjusted operating profit, reviewed on a regular basis, as the key measure of the segments' performance. Operating profit in this instance is defined as profit before the following:

- Net financing expense
- Significant non-recurring items
- Pension charges or credits in relation to the net pension position
- Revaluation of interest rate swaps and forward foreign currency contracts

The UK bakery segment manufactures and sells bakery products to the UK's multiple grocers and foodservice sectors. This segment primarily comprises the operations of Memory Lane Cakes Ltd, Lightbody Group Ltd, Johnstone's Food Service Ltd, Fletchers Bakeries Ltd and Nicholas & Harris Ltd. These subsidiaries are aggregated into a single reporting UK bakery segment as they share similar economic characteristics. The characteristics considered are:

- The nature of the products – products are similar in nature and are classed as manufactured bakery products
- The production process – the production processes have the same or similar characteristics
- The economic characteristics – the average gross margins are expected to be similar
- The type and class of customer – customers are the same grocery retailers and foodservice companies
- The method of distribution – the method is the same or similar throughout the segment
- The regulatory environment – the environment is the same

Costs of Group operations plus a 10% premium have been allocated across the segments on the basis of their operating profit. The premium has been charged to reflect the synergies achieved from obtaining resources centrally giving benefits across the operating segments.

A purchasing premium of 2% is charged from Group operations, and is calculated on materials and packaging spend at segmental level. This charge is based on the rationale that Group operations, through its Group buyers, optimises the Group's procurement spend through leveraging its purchasing power.

This has resulted in a loss from continuing operations of £0.1 million (2017: £0.2 million loss) being presented within the Group operations segment.

The Group's finance income and expenses cannot be meaningfully allocated to the individual operating segments.

Notes to the Consolidated Financial Statements

2. Revenue and Segment Information (continued)

52 week period ended 30 June 2018	UK bakery £000	Overseas £000	Group operations £000	Total Group £000
External revenue continuing	271,127	32,473	-	303,600
Adjusted operating profit	**15,607**	**2,348**	**(111)**	**17,844**
Fair value foreign exchange contracts	(145)	194	-	49
Defined benefit pension scheme	411	-	-	411
Significant non-recurring items	(13,067)	-	-	(13,067)
Results from operating activities	**2,806**	**2,542**	**(111)**	**5,237**
Finance income				167
Finance cost				(929)
Net finance cost				**(762)**
Share of losses of equity accounted investees after tax				-
Profit before taxation				**4,475**
Taxation				(1,311)
Profit for the financial year				**3,164**
At 30 June 2018				
Segment assets	**187,260**	**7,138**	**752**	**195,150**
Unallocated assets				9,955
Consolidated total assets				**205,105**
Segment liabilities	**(64,358)**	**(4,684)**	**(6,661)**	**(75,703)**
Unallocated liabilities				**(24,820)**
Consolidated total liabilities				**(100,523)**
Other segment information				
Capital expenditure	12,433	173	-	12,606
Depreciation included in segment profit	6,979	62	-	7,041
Amortisation	715	-	-	715
Impairment of assets	987	-	-	987
Inter-segmental sale/(purchases)	9,538	(9,538)	-	-

Analysis of unallocated assets and liabilities:

	Assets £000		Liabilities £000
Investments	28	Loans and borrowings	(24,685)
Financial instruments	558	Financial instruments	(40)
Cash and cash equivalents	9,363	Cash and cash equivalents	-
Taxation balances	6	Taxation balances	(95)
Unallocated assets	9,955	Unallocated liabilities	(24,820)

With regard to revenue, five customers with sales of £60.0 million, £40.0 million, £31.0 million, £24.0 million and £18.0 million account for 57% of revenue, which is attributable to the UK bakery and Overseas segments above.

2. Revenue and Segment Information (continued)

52 week period ended 1 July 2017	UK bakery £000	Overseas £000	Group operations £000	Total Group £000
External revenue continuing	281,580	32,716	-	314,296
Adjusted operating profit	**15,369**	**2,219**	**(153)**	**17,435**
Fair value foreign exchange contracts	(350)	279	-	(71)
Defined benefit pension scheme	200	-	-	200
Significant non-recurring items	(4,000)	-	-	(4,000)
Results from operating activities	**11,219**	**2,498**	**(153)**	**13,564**
Finance income				555
Finance cost				(1,081)
Net finance cost				**(526)**
Share of losses of equity accounted investees after tax				(22)
Profit before taxation				**13,016**
Taxation				(2,959)
Profit for the financial year				**10,057**
At 1 July 2017				
Segment assets	**188,628**	**6,543**	**712**	**195,883**
Unallocated assets				**3,922**
Consolidated total assets				**199,805**
Segment liabilities	**(62,483)**	**(5,041)**	**(6,564)**	**(74,088)**
Unallocated liabilities				**(20,715)**
Consolidated total liabilities				**(94,803)**
Other segment information				
Capital expenditure	12,430	112	-	12,542
Depreciation included in segment profit	6,906	42	-	6,948
Amortisation	537	-	-	537
Impairment of assets	4,000	-	-	4,000
Inter-segmental sale/(purchases)	8,710	(8,710)	-	-

Analysis of unallocated assets and liabilities:

	Assets £000		Liabilities £000
Investments	297	Loans and borrowings	(20,386)
Financial instruments	560	Financial instruments	(234)
Cash and cash equivalents	3,024	Cash and cash equivalents	-
Taxation balances	41	Taxation balances	(95)
Unallocated assets	3,922	Unallocated liabilities	(20,715)

With regard to revenue, five customers with sales of £64.0 million, £39.0 million, £31.0 million, £22.0 million and £22.0 million account for 57% of revenue, which is attributable to the UK bakery and Overseas segments above.

Impairment relates to the assets held in Grain D'Or, which fall under the UK bakery segment.

2. Revenue and Segment Information (continued)

An analysis by geographical segment is shown below:

Geographical split of revenue by destination	2018 £000	2017 £000
Continuing:		
United Kingdom	**257,701**	276,177
Europe	**45,899**	38,119
Total continuing	**303,600**	314,296

Capital expenditure on segment assets is detailed in Note 2.

Geographical split by country of origin	United Kingdom £000	Europe £000	Total £000
2018			
Continuing revenue	271,127	32,473	303,600
Adjusted operating profit	15,496	2,348	17,844
Unadjusted operating profit	2,695	2,542	5,237
Total assets	197,874	7,231	205,105
Total liabilities	(95,748)	(4,775)	(100,523)
Net assets	102,126	2,456	104,582

	United Kingdom £000	Europe £000	Total £000
2017			
Continuing revenue	281,580	32,716	314,296
Adjusted operating profit	15,216	2,219	17,435
Unadjusted operating profit	11,066	2,498	13,564
Total assets	193,262	6,543	199,805
Total liabilities	(89,762)	(5,041)	(94,803)
Net assets	103,500	1,502	105,002

The net assets shown under Europe comprises Lightbody Stretz Ltd, being the 50% owned Parent Company of Lightbody Europe SAS, the French based selling and distribution business.

3. Expenses and Auditor's Remuneration

Included in profit are the following:

	2018 £000	2017 £000
Amortisation of intangibles	**715**	537
Depreciation of owned tangible assets	**6,859**	6,715
Depreciation on assets under finance leases and hire purchase contracts	**182**	233
Impairment of assets and goodwill	**987**	4,000
Loss on foreign exchange	**260**	1,360
Hire of plant and machinery – operating leases	**797**	1,006
Hire of other assets – operating leases	**1,302**	1,833
Movement on fair value of foreign exchange contracts	**(49)**	71
Research and development	**1,567**	2,328
Share option charges	**1,138**	1,240
Government grants	**25**	-

Amortisation of intangibles for the year was £715,000 (2017: £537,000) relating to the Fletchers acquisition in October 2014 and business systems.

Auditor's remuneration:

	2018 £000	2017 £000
Audit of these Financial Statements	**60**	50
Amounts receivable by the auditor and its associates in respect of:		
Audit of the Financial Statements of subsidiaries of the Company	**120**	123
Taxation compliance services	**24**	35
Other tax advisory	**10**	7
Other services	**173**	100

The auditor's remuneration is in respect of KPMG LLP. Fees for other services relates to pension advisory services and services relating to information technology.

4. Significant Non-recurring Items

The Group presents certain items as non-recurring and significant. These relates 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. They reflect costs that will not be repeated and therefore do not reflect ongoing trading of business which is most meaningful to users.

Included within significant non-recurring items shown in the table on page 27 of the Financial Review section are the following costs:

	2018 £000	2017 £000
Site closures – reorganisation people costs	**2,266**	-
Site closures – property, leases and contract costs	**9,604**	-
Site closures – legal and professional costs	**121**	-
Impairment of assets and investments	**373**	4,000
Acquisition related costs	**703**	-
	13,067	4,000

The site closure provision relates primarily to the closure of the Grain D'Or site during the year, the provision is based on best estimates of the outcome of negotiations. Whilst site exit negotiations are still ongoing, the expectation is that these will conclude within the new financial year.

The pension provision relates to a contractual liability for pension augmentation, the amount utilised during the year represents payments in relation to the augmentations which are being paid over 14 years.

Notes to the Consolidated Financial Statements

5. Staff Numbers and Costs

The average number of persons employed by the Group including Directors and excluding agency staff during the year, analysed by category, was as follows:

	Number of Employees	
	2018	2017
Production	**2,513**	2,617
Selling and distribution	**173**	243
Administration, technical, new product development	**302**	302
	2,988	3,162

The aggregate payroll costs of these persons were as follows:

	2018 £000	2017 £000
Wages and salaries	**68,330**	72,127
Share option charges	**1,138**	1,240
Social security costs	**6,469**	6,427
Charge in respect of defined benefit plans	**200**	-
Charge in respect of defined contribution pension plans	**1,372**	1,257
	77,509	81,051

6. Remuneration of Directors

	2018 £000	2017 £000
Fees	**306**	300
Executive salaries	**711**	626
Bonuses and benefits	**523**	583
	1,540	1,509

The aggregate of emoluments and amounts receivable under long-term incentive schemes of the highest paid Director was £718,000 (2017: £693,000), there were no Company pension contributions made to a defined contribution scheme during the current or prior year. Bonuses include cash bonus of £223,000 (2017: £241,000) and shares issued with a total cost of £80,000 (2017: £91,000). There were no share options exercised in the period by the highest paid Director.

There were no retirement benefits accruing to Directors during the current or previous year.

The emoluments **paid** to Directors were as follows:

	Fees £000	Salary £000	Benefits £000	Annual bonus £000	**Year ended 30 June 2018 £000**	Year ended 1 July 2017 £000
P Baker	85	-	-	-	**85**	75
E J Beale	-	-	-	-	**-**	23
R Beveridge	54	-	-	-	**54**	-
S A Boyd – paid	-	284	12	162	**458**	442
S A Boyd – shares	-	-	-	58	**58**	64
J G Duffy – paid	-	403	12	223	**638**	612
J G Duffy – shares	-	-	-	80	**80**	91
R P E Duignan	58	-	-	-	**58**	60
M J Millard	53	-	-	-	**53**	53
P J Monk	-	-	-	-	**-**	36
Z Morgan	56	-	-	-	**56**	53
	306	687	24	523	**1,540**	1,509

Shares comprise 74,441 shares issued to J G Duffy and 54,088 shares issued to S A Boyd. During the year awards over 753,469 shares under the long-term incentive plan (LTIP) were granted to Directors in the form of nil cost options (2017: 889,996). The vesting of the awards is conditional upon performance conditions over a three-year period commencing 2 July 2017 and are subject to a further two year holding period.

Directors' rights to subscribe for shares in the Company are listed below:

	Number of options at 30 June 2018	Number of options at 1 July 2017	Exercise price	Earliest exercise date	Exercise expiry date
S A Boyd	**702,825**	721,217	Nil	01/07/2019	26/06/2025
S A Boyd	**505,051**	505,051	Nil	01/07/2020	04/12/2025
S A Boyd	**374,532**	374,532	Nil	30/06/2021	29/09/2026
S A Boyd	**315,269**	-	Nil	02/07/2022	26/10/2027
J G Duffy	**1,108,881**	1,137,898	Nil	01/07/2019	26/06/2025
J G Duffy	**695,095**	695,095	Nil	01/07/2020	04/12/2025
J G Duffy	**515,464**	515,464	Nil	30/06/2021	29/09/2026
J G Duffy	**438,200**	-	Nil	02/07/2022	26/10/2027
	4,655,317	3,949,257			

The mid-market price of the ordinary shares on 30 June 2018 was 117.5p (2017: 116p) and the range during the 52 week period to 30 June 2018 was 99p to 131p (2017: 103p to 137p).

Notes to the Consolidated Financial Statements

7. Finance Income and Cost

Recognised in the Consolidated Statement of Profit and Loss

	2018 £000	2017 £000
Finance income		
Change in fair value of interest rate swaps	**143**	555
Interest on interest rate swap agreements	**18**	-
Bank interest receivable	**6**	-
Total finance income	**167**	555
Finance cost		
Interest on net pension position	**(277)**	(204)
Bank interest payable	**(638)**	(752)
Interest on interest rate swap agreements	**(14)**	(125)
Total finance cost	**(929)**	(1,081)

8. Taxation

Recognised in the Consolidated Statement of Profit and Loss

	2018 £000	2017 £000
Current tax		
Current year	**1,236**	3,270
Adjustments for prior years	**(93)**	(196)
Total current tax	**1,143**	3,074
Deferred tax		
Origination and reversal of temporary differences	**328**	(222)
Retirement benefit deferred tax charge	**-**	1
Adjustments for prior years	**(160)**	106
Total deferred tax	**168**	(115)
Total tax expense	**1,311**	2,959

Reconciliation of Effective Tax Rate

The weighted average hybrid rate of UK and French tax is 22.5% (2017: 22.2%). The tax assessed for the period is higher (2017: lower) than the hybrid rate of UK and French tax. The UK corporation tax rate for the period is 19.0% (2017: 20.0%). The differences are explained below:

	2018 £000	2017 £000
Profit before taxation before losses from equity accounted investees	**4,475**	13,038
Tax using the UK corporation tax rate of 19.00% (2017: 19.76%)	**850**	2,577
Overseas profits charged at different taxation rate	**277**	344
Non-deductible expenses	**586**	160
Restatement of opening net deferred tax due to rate change and differences in rates	**(49)**	68
R&D uplift current year	**(100)**	(100)
Adjustments to tax charge in respect of prior periods	**(253)**	(90)
Tax expense (excluding prior year disallowable impairment)	**1,311**	2,959

8. Taxation (continued)

The UK corporation tax rate reductions from 20% to 19% from 1 April 2017 and 18% from 1 April 2020 were substantively enacted on 26 October 2015. An additional reduction to 17% from 1 April 2020 was substantively enacted on 6 September 2016. The deferred tax assets and liabilities at 30 June 2018 have been calculated based on these rates.

The adjustment of £253,000 for prior year includes, ineligible capital spends and disallowable expenses being different to the assumed levels at the time of preparation of the Annual Report.

The Company has an unrecognised deferred tax asset of £162,605 (2017: £162,605) relating to capital losses carried forward. This asset has not been recognised in the Financial Statements as it is not expected that suitable gains will arise in the future in order to utilise the underlying capital losses.

9. Earnings Per Ordinary Share

Basic earnings per share for the period is calculated on the basis of profit for the year after tax, divided by the weighted average number of shares in issue being 127,611,000 (2017: 126,979,000).

Basic diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue to assume conversion of all potential dilutive ordinary shares. At 30 June 2018, the diluted weighted average number of shares in issue was 132,162,000 (2017: 130,992,000).

An adjusted earnings per share has been calculated to show the trading performance of the Group. These adjusted earnings per share exclude:

- Reorganisation and other significant non-recurring items
- IAS 39 'Financial Instruments: Recognition and Measurement' fair value adjustment relating to the Group's interest rate swaps and foreign exchange contracts
- IAS 19 (revised) 'Accounting for retirement benefits' relating to net income
- The taxation effect at the appropriate rate on adjustments
- Amortisation of intangible assets

	52 weeks to 30 June 2018 £000	52 weeks to 1 July 2017 £000
Profit		
Profit attributable to equity holders of Company (basic)	2,180	9,048
Significant non-recurring and other items as per Strategic Report	10,344	2,901
Intangible amortisation net of deferred tax	446	446
Numerator for adjusted earnings per share calculation (adjusted basic)	12,970	12,395

	Basic '000	Diluted '000	Basic '000	Diluted '000
Shares				
Weighted average number of ordinary shares in issue during the period	127,611	127,611	126,979	126,979
Dilutive effect of share options	–	4,551	–	4,013
	127,611	132,162	126,979	130,992

	Basic pence	Diluted pence	Basic pence	Diluted pence
Earnings per share (pence per share)				
Basic and diluted	1.7	1.6	7.1	6.9
Adjusted basic and adjusted diluted	10.2	9.8	9.8	9.5

Significant non-recurring and other items are tabled in the Strategic Report on page 27 and comprise: significant non-recurring charges (£10,615,000), defined benefit pension scheme £111,000 and fair value of interest rate swaps and foreign exchange contracts £160,000.

Notes to the Consolidated Financial Statements

10. Intangibles

Intangible assets comprise customer relationships, brands and goodwill.

	Goodwill £000	Business systems £000	Brands and licences £000	Customer relationships £000	Total £000
Cost at 2 July 2016	73,458	600	3,683	5,909	83,650
Transfer from tangible assets	-	548	-	-	548
Additions	-	2,695	-	-	2,695
Cost at 1 July 2017	73,458	3,843	3,683	5,909	86,893
Transfer from tangible assets	-	-	-	-	-
Additions	-	3,726	-	-	3,726
Cost at 30 June 2018	**73,458**	**7,569**	**3,683**	**5,909**	**90,619**
Amortisation/impairment at 2 July 2016	(4,290)	-	(1,073)	(691)	(6,054)
Charge for the year 1 July 2017	-	-	(143)	(394)	(537)
Amortisation/impairment at 1 July 2017	(4,290)	-	(1,216)	(1,085)	(6,591)
Charge for the year 30 June 2018	-	(178)	(143)	(394)	(715)
Amortisation/impairment at 30 June 2018	**(4,290)**	**(178)**	**(1,359)**	**(1,479)**	**(7,306)**
Net book value at 2 July 2016	69,168	600	2,610	5,218	77,596
Net book value at 1 July 2017	69,168	3,843	2,467	4,824	80,302
Net book value at 30 June 2018	**69,168**	**7,391**	**2,324**	**4,430**	**83,313**

The brand and customer relationships recognised were purchased as part of the acquisition of Fletchers Group of Bakeries in October 2014. They are considered to have finite useful lives and are amortised on a straight-line basis over their estimated useful lives of twenty years for the brand and fifteen years for customer relationships. The intangibles were valued using an income approach, using Multi-Period Excess Earnings Method for customer relationships and Relief from Royalty Method for brand valuation. The amortisation of intangibles has been charged to administrative expenses in the Income Statement. Amortisation on business systems, commenced during the year as the systems are brought into use.

Goodwill has arisen on acquisitions and reflects the future economic benefits arising from assets that are not capable of being identified individually and recognised as separate assets. The goodwill reflects the anticipated profitability and synergistic benefits arising from the enlarged Group structure. The goodwill is the balance of the total consideration less fair value of assets acquired and identified. The carrying value of the goodwill is reviewed annually for impairment. The carrying value of all goodwill has been assessed during the year.

The Group tests goodwill for impairment on an annual basis, or more frequently if there are indications that the goodwill may be impaired. The recoverable amounts of the cash generating units are determined from value in use calculations. The key assumptions for the value in use calculations are the discount rate used for future cash flows and the anticipated future changes in revenue, direct costs and indirect costs. The assumptions used reflect the past experience of management and future expectations.

The Group prepares cash flow forecasts covering a five-year period based on the detailed financial forecasts approved by management for the next three years with estimated growth and inflation of 3% (2017: 3%) and 3% (2017: 3%) respectively thereafter. The cashflows beyond this forecast are extrapolated to perpetuity using a nil growth rate on a prudent basis, to reflect the uncertainties of forecasting further than five years. Changes in revenue and direct costs are based on past experience and expectations of future changes in the market.

The revenue growth rate combines volume, mix and price of products. An inflation factor has been applied to costs of sales, variable costs and indirect costs and takes into consideration the general rate of inflation, movements in commodities.

A pre-tax discount rate of 10% (2017: 10%) has been used in these calculations. The Group has considered the economic environment and higher level of return expected by equity holders due to the perceived risk in equity markets when selecting the discount rate. The discount rate used for each cash generating unit has been kept constant as the market risk is deemed not to be materially different between the different segments of the bakery sector, nor over time.

10. Intangibles (continued)

Sensitivity analyses have been carried out by the Directors on the carrying value of all remaining goodwill using discount rates ranging between 6.4% and 15.0% which would not result in an impairment of any cash generating units. Management believe any increase in discount rates above 15.0% to be remote.

The carrying amount of goodwill has been allocated to cash generating units or groups of cash generating units as follows:

	2018 £000	2017 £000
Nicholas & Harris	**2,980**	2,980
Lightbody of Hamilton	**45,698**	45,698
Memory Lane Cakes	**-**	-
Fletchers Bakery	**20,118**	20,118
Johnstone's Food Service	**372**	372
	69,168	69,168

11. Property, Plant and Equipment

	Land and buildings £000	Plant and equipment £000	Fixtures and fittings £000	Assets under construction £000	Total £000
Cost					
Balance at 2 July 2016	15,336	81,068	3,599	3,601	103,604
Exchange adjustments	-	-	7	-	7
Transfers to intangible assets	-	-	-	(548)	(548)
Additions	17	6,837	611	2,382	9,847
Transfers	(29)	798	570	(1,339)	-
Disposals	-	(4,364)	(43)	-	(4,407)
Balance at 1 July 2017	**15,324**	**84,339**	**4,744**	**4,096**	**108,503**
Balance at 1 July 2017	15,324	84,339	4,744	4,096	108,503
Exchange adjustments	-	-	-	-	-
Transfers to intangible assets	-	-	-	-	-
Additions	2,655	3,234	337	2,654	8,880
Transfers	1,917	5,558	39	(7,514)	-
Disposals	(570)	(17,805)	(57)	-	(18,432)
Balance at 30 June 2018	**19,326**	**75,326**	**5,063**	**(764)**	**98,951**
Depreciation and impairment					
Balance at 2 July 2016	(5,164)	(45,635)	(2,304)	-	(53,103)
Impairment	-	(4,000)	-	-	(4,000)
Depreciation charge for the financial period	(390)	(6,057)	(501)	-	(6,948)
Transfers	28	223	(251)	-	-
Disposals	-	4,360	45	-	4,405
Balance at 1 July 2017	**(5,526)**	**(51,109)**	**(3,011)**	**-**	**(59,646)**
Balance at 1 July 2017	(5,526)	(51,109)	(3,011)	-	(59,646)
Impairment	-	(718)	-	-	(718)
Depreciation charge for the financial period	(461)	(5,785)	(795)	-	(7,041)
Transfers	(153)	(1,310)	4	1,459	-
Disposals	570	17,743	63	-	18,376
Balance at 30 June 2018	**(5,570)**	**(41,179)**	**(3,739)**	**1,459**	**(49,029)**
Net book value					
At 2 July 2016	10,172	35,433	1,295	3,601	50,501
At 1 July 2017	9,798	33,230	1,733	4,096	48,857
At 30 June 2018	**13,756**	**34,147**	**1,324**	**695**	**49,922**

Notes to the Consolidated Financial Statements

11. Property, Plant and Equipment (continued)

Leased Plant and Equipment

The net book value of assets held under finance lease or hire purchase contracts included above is as follows:

	2018 £000	2017 £000
Plant and equipment	-	302

Security

HSBC Bank Plc, HSBC Asset Finance (UK) Ltd, HSBC Equipment Finance (UK) Ltd and HSBC Corporate Trustee Company (UK) Limited have debentures incorporating fixed and floating charges over the undertaking and all property and assets including goodwill, book debts, uncalled capital, buildings, fixtures, fixed plant and machinery.

12. Other Financial Assets and Liabilities

	2018 £000	2017 £000
Non-current		
Investments in equity accounted investees		
At the beginning of the financial year	**269**	211
Additions	**-**	80
Impairment	**(269)**	-
Share of losses	**-**	(22)
At the end of the financial year	**-**	269
Other financial assets	**28**	28
Current assets – derivatives		
Fair value of interest rate swaps	**558**	415
Fair value of foreign exchange contracts	**-**	145
Total of derivatives with positive fair values	**558**	560
Current liabilities – derivatives		
Fair value of interest rate swaps	**-**	-
Fair value of foreign exchange contracts	**(40)**	(234)
Total of derivatives with negative fair values	**(40)**	(234)

Investment in Associates

During the year the Group assessed the carrying value of its investment in Dr Zaks and in the challenging economic environment the carrying value has been fully impaired.

Interest Rate Swaps at Fair Value

The Group has a forward dated interest rate swap arrangement to hedge its risks associated with interest rate fluctuations:

£20.0 million for five years from 3 July 2017 (fixed) at 0.455%.

There was £20.0 million coverage in place at the year end (2017: £nil).

A credit of £143,000 (2017: credit £555,000) is shown in finance income for the periods reflecting changes in the fair values of interest rate swaps.

Forward Foreign Exchange Contracts at Fair Value

The Group has entered into a number of forward foreign exchange contracts to minimise the impact of fluctuations in exchange rates. A credit of £49,000 (2017: charge £71,000) is shown in administrative expenses for the periods reflecting changes in their fair value.

13. Pension Schemes

A number of companies within the Group operate defined contribution pension schemes with one company also operating a defined benefit scheme.

Defined Contribution Scheme

The Group made contributions in respect of its defined contribution pension arrangements of £1,372,000 (2017: £1,257,000).

Defined Benefit Scheme

The Group's defined benefit scheme is the Memory Lane Cakes Pension Scheme, which is a separately administered plan. At the financial year end, the scheme had no active members accruing benefits (2017: nil), 186 deferred pensioner members (2017: 196) and 218 pensioner members (2017: 217).

The scheme was closed to future accrual on 31 May 2010. The assets of the scheme are held separately from those of the Company. The amounts in the Financial Statements for the 52 weeks ended 30 June 2018 relating to defined benefit pension are based on a full actuarial valuation dated 31 December 2015, which was updated at the end of the scheme's financial year 2017.

A £393,000 contribution was paid during the financial year by Memory Lane Cakes Limited (2017: £200,000). The Group's contribution has been agreed based on the outcome of the full actuarial valuation dated 31 December 2015. The valuation of the scheme on an equity/bond basis and projected unit method, showed that there was a deficit at 31 December 2015 of £2,505,000 equivalent to an 11% deficit of liabilities over assets. The valuation was conducted by a qualified independent actuary. This deficit is payable at a rate of £200,000 per annum until September 2020, and £100,000 thereafter until September 2023. The next full valuation is due by 31 December 2018, which will challenge the appropriateness of this recovery plan taking into consideration the deficit recovery contributions and actual returns realised on the pension scheme assets.

The present value of the Company's committed deficit reduction contributions does not give rise to a net pension asset or additional balance sheet liability in accordance with IFRIC 14.

Approximately 90% of the assets are held in two diversified growth funds which target 6 month LIBOR +5% and CPI +5% respectively. The scheme's assets are expected to provide real returns over the long term. The expected return on cash balances held is based on the current Bank of England base rate rather than long-term deposit rates as cash is held to cover short-term requirements.

The full actuarial valuation differs from the financial year end valuation deficit of £10,536,000 (2017: £10,498,000). No allowance is made in the financial year end valuation for any outperformance expected from the scheme's actual asset holding over and above high quality corporate bonds.

	2018 £000	2017 £000
Fair value of plan assets	**18,834**	19,985
Present value of defined benefit obligations	**(29,370)**	(30,483)
Deficit recognised	**(10,536)**	(10,498)

The fair value of plan assets and the return on those assets were as follows:

	2018 £000	2017 £000
Equities/target return fund	**16,608**	17,872
Property	**2,145**	1,989
Cash	**81**	124
Fair value of plan assets	**18,834**	19,985
Actual return on plan assets	**(251)**	1,319

None of the fair values of the assets shown above include any of the Company's own financial instruments or any property occupied by, or any other assets used by, the Company.

Notes to the Consolidated Financial Statements

13. Pension Schemes (continued)

	2018 £000	2017 £000
Movements in present value of defined benefit obligation		
At beginning of financial year	**(30,483)**	(25,750)
Interest on plan obligations	**(805)**	(811)
Benefits paid	**1,293**	821
Remeasurement – settlement or curtailment	**18**	-
Remeasurement – gains/(losses) from changes to financial assumptions	**607**	(4,743)
At end of financial year	**(29,370)**	(30,483)
Movements in fair value of plan assets		
At beginning of financial year	**19,985**	19,287
Interest on plan assets	**528**	607
Return on plan assets less interest	**(779)**	712
Benefits paid	**(1,293)**	(821)
Contributions by employer	**393**	200
At end of financial year	**18,834**	19,985

Remeasurement gains and losses arise due to changes in the key assumptions such as inflation, mortality rates, demographic rates and discount rates as well as experience gains and losses.

Expense Recognised in the Consolidated Statement of Profit and Loss

Interest on plan assets/finance income	**528**	607
Interest on plan obligations/finance expense	**(805)**	(811)
Total (expense)/income	**(277)**	(204)

Remeasurement Gains and Losses Recognised directly in Equity in the Statement of Comprehensive Income and Expense since 1 July 2006, the transition date to Adopted IFRS

Cumulative amount at beginning of financial year	**(12,631)**	(8,600)
Recognised in the financial year – return on plan assets less interest	**(779)**	712
Recognised in the financial year – gains/(losses) from changes to financial assumptions	**607**	(4,743)
Cumulative amount at end of financial year	**(12,803)**	(12,631)

Principal Long-term Actuarial Assumptions at the Year End

	2018 %	2017 %
CPI Price inflation assumption	**2.3**	2.4
Increases to pensions in payment	**2.3**	2.4
Discount rate for liabilities	**2.7**	2.7
Rate of return for plan assets	**2.7**	2.7

The differential between the assumed rate of inflation and the discount rate for liabilities is 0.4% (2017: 0.3%).

Salary inflation assumptions are as determined by the Board with regard to price inflation. The salary inflation from 31 May 2010 when the scheme closed to future accrual was assumed to be in line with inflation.

13. Pension Schemes (continued)

The financial assumptions are based on market conditions as at the review date of 30 June 2018 with discount rates based on the yields on long-dated high quality corporate bonds. The discount rate remains at the same level as the discount rate used last year. The rate of return for plan assets is the long-term rate that reflects the yield on high quality corporate bonds as required under changes to IAS 19. The rate of return is effectively based on the discount rate with no allowance made for any outperformance expected from the scheme's actual asset holding. The actual return on the scheme's assets, net of expenses, over the year to the review date was around -1.3% (2017: 6.9%), the negative return that occurred in the current year was impacted by the uncertainty and volatility in equity markets.

Changing the year end 2018 assumptions to those of 2017 year end listed on the previous page, the deficit would have been £11,143,000 compared to the reported deficit of £10,536,000.

	2018	2017
Pre-retirement mortality assumption	**S2NA year of birth tables with CMI 2015 projections and 1.25% pa long-term rate of improvement**	S2NA year of birth tables with CMI 2015 projections and 1.25% pa long-term rate of improvement
Post-retirement mortality assumption	**S2NA year of birth tables with CMI 2015 projections and 1.25% pa long-term rate of improvement**	S2NA year of birth tables with CMI 2015 projections and 1.25% pa long-term rate of improvement

Under the mortality tables adopted, the assumed future life expectancy at age 65 is as follows:

	2018	2017
Male currently at age 45	**24.3**	24.2
Female currently at age 45	**26.6**	26.5
Male currently at age 65	**22.6**	22.5
Female currently at age 65	**24.7**	24.6

Sensitivity Analysis

The calculation of the defined benefit obligation is sensitive to the assumptions set out above. The following table summarises changes in these assumptions and their approximate (decrease)/increase in liabilities.

	2018
Discount rate plus 0.5%	(£2.6 million)
Discount rate minus 0.5%	£2.9 million
Inflation plus 0.5%	£3.0 million
Inflation minus 0.5%	(£2.9 million)
Life expectancy plus 1.0 years	£0.7 million
Life expectancy minus 1.0 years	(£0.7 million)

The above sensitivities are approximate and only show the likely effect of an assumption being adjusted whilst all other assumptions remain the same.

The weighted average duration of the defined benefit obligation is around 18 years.

Risk Mitigation Strategies

Whilst the scheme does not explicitly hold risk mitigation strategies such as swaps, annuities or liability driven investments, the investment strategy is dominated by diversified growth funds which are intended to reduce the investment risk through diversification.

Effect of the Scheme on the Company's Future Cashflows

The Company is required to agree a Schedule of contributions with the Trustees of the scheme following a valuation which must be carried out at least once every three years. The next valuation of the scheme is due as at 31 December 2018. In the event that the valuation reveals a larger deficit than expected the Company may be required to increase contributions above those set out in the existing Schedule of Contributions. Conversely, if the position is better than expected contributions may be reduced. The total cash cost to the Company for the current financial year is £454,000, this includes deficit recovery contributions, pension protection fund levy fees and cost of advisors. The Company expects to pay deficit recovery contributions of £200,000 in the year to 29 June 2019. The projected net interest charge to the Consolidated Statement of Profit and Loss for the year to 29 June 2019 is £281,000. This projection assumes cashflows to and from the scheme are broadly unchanged from the current year figures and that there will be no events that would give rise to a settlement/curtailment/past service cost.

13. Pension Schemes (continued)

Consolidated Statement of Financial Position

	2018 £000	2017 £000	2016 £000	2015 £000	2014 £000
Fair value of plan assets	**18,834**	19,985	19,287	20,587	19,741
Present value of the defined benefit obligation	**(29,370)**	(30,483)	(25,750)	(24,424)	(23,371)
Deficit	**(10,536)**	(10,498)	(6,463)	(3,837)	(3,630)
Experience adjustments on plan assets	**(779)**	712	(1,451)	656	927
as a percentage of plan assets	**(4.1%)**	3.6%	(7.5%)	3.2%	4.7%
Experience adjustments on plan liabilities	**-**	-	236	-	-
as a percentage of plan liabilities	**0.0%**	0.0%	0.9%	0.0%	0.0%
Total remeasurement (losses)/gains	**(172)**	(4,031)	(2,595)	(153)	(726)
as a percentage of plan liabilities	**0.6%**	13.2%	10.0%	0.6%	3.1%

14. Inventories

	2018 £000	2017 £000
Raw materials and consumables	**5,555**	5,378
Finished goods	**7,901**	7,306
	13,456	12,684

Inventories Recognised as an Expense

	2018 £000	2017 £000
Opening inventories	**12,684**	12,577
Purchases	**138,570**	130,302
Increase/(decrease) in stock provisions	**16**	5
Closing inventories	**(13,456)**	(12,684)
Expensed during the period	**137,814**	130,200

15. Trade and Other Receivables

	2018 £000	2017 £000
Trade receivables due from third parties	**39,967**	45,163
Other debtors	**1,807**	2,610
Prepayments and accrued income	**2,282**	2,245
Current tax asset	**519**	-
	44,575	50,018

Specific provisions are made against doubtful debts taking the value of trade receivables to an estimated value based on the most likely outcome.

Cash received under the invoice discounting facility, amounting to £Nil (2017: £11,646,000) is shown within current liabilities and is secured on the trade receivables above. All the risks and rewards of the trade debtors lie with the Group.

16. Cash and Cash Equivalents Including Bank Overdrafts

	2018 £000	2017 £000
Cash at bank and on hand	**22,610**	11,305
Bank overdraft	**(13,247)**	(8,281)
	9,363	3,024

17. Other Interest-bearing Loans and Borrowings

This Note provides information about the contractual terms and repayment terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost, using the effective interest rate method.

2018	Margin	Frequency of repayments	Year of maturity	Facility £000	Drawn £000	Current £000	Non-current £000
Revolving credit	1.30%/LIBOR	Varies	2023	45,000	25,000	25,000	-
Unamortised transaction costs					(315)	(315)	-
					24,685	**24,685**	**-**

2017	Margin	Frequency of repayments	Year of maturity	Facility £000	Drawn £000	Current £000	Non-current £000
Invoice discounting	1.50%/base	On demand	Revolving*	22,000	11,646	11,646	-
Term loan	2.00%/LIBOR	Quarterly	2019	13,400	6,337	2,568	3,769
Revolving credit	2.00%/LIBOR	Varies	2019	8,000	-	-	-
Mortgage	1.75%/LIBOR	Quarterly	2022	3,470	2,457	369	2,088
Finance lease liabilities	1.76%/base	Monthly	Various	2,000	57	57	-
Overdraft	2.00%/base	On demand	-	2,000	-	-	-
				50,870	20,497	14,640	5,857
Unamortised transaction costs					(111)	(54)	(57)
					20,386	**14,586**	**5,800**

Secured bank loans and mortgages over one year	5,857
Unamortised transaction costs	(57)
	5,800

Repayments are as follows:	
Between one and two years	2,894
Between two and five years	2,292
Between five and ten years	614
	5,800

*Revolving maturity above relates to the payment terms on the invoice discounting which is up to 90 days from the date of invoice.

Finance lease liabilities are payable as follows:

	2018 Minimum lease payments £000	2018 Interest £000	2018 Principal £000	2017 Minimum lease payments £000	2017 Interest £000	2017 Principal £000
Less than one year	-	-	-	58	1	57
	-	-	-	58	1	57

All of the above loans are denoted in pounds Sterling, with various interest rates and maturity dates. The main purpose of the above facilities is to finance the Group's operations. For more information about the Group's exposure to interest rate risk, see Note 21.

There were no finance leases payable at the end of 30 June 2018.

As part of the bank borrowing facility the Group needs to meet certain covenants every six months. There were no breaches of covenants during the year. The covenant tests required are Net bank debt : EBITDA, Interest cover, debt service cover and capital expenditure.

The bank facilities available for drawdown are £45.0 million plus a further £45.0 million accordion facility (2017: £48.9 million). At the period end date, the facility utilised was £25.0 million (2017: £20.5 million), giving £20.0 million (2017: £28.4 million) headroom. A further £45.0 million of unutilised accordion facility is available for drawdown.

Notes to the Consolidated Financial Statements

18. Analysis of Net Debt

	Note	At year ended 1 July 2017 £000	Cash flow £000	**At year ended 30 June 2018 £000**
Cash at bank		3,024	6,339	**9,363**
Debt due within one year		(2,937)	(22,063)	**(25,000)**
Debt due after one year		(5,857)	5,857	**-**
Invoice discounting due within one year		(11,646)	11,646	**-**
Hire purchase obligations due within one year		(57)	57	**-**
Total net bank debt		(17,473)	1,836	**(15,637)**
Debt	17	(20,386)	(4,299)	**(24,685)**
Cash at bank		3,024	6,339	**9,363**
Unamortised transaction costs		(111)	(204)	**(315)**
Total net bank debt		(17,473)	1,836	**(15,637)**
Cash at bank		3,024	6,339	**9,363**
Total debt payable excluding cash		(20,497)	(4,503)	**(25,000)**

19. Trade, Other Payables and Provisions

Trade and Other Payables

	2018 £000	2017 £000
Current		
Trade creditors	**37,210**	36,663
Other creditors including taxes and social security	**2,088**	2,002
Accruals and deferred income	**16,300**	21,796
	55,598	60,461

Provisions

	Site closure £000	Pension £000	Total £000
Balance at beginning of financial year	-	239	239
Made during the year	11,316	-	11,316
Utilised during the financial year	(3,112)	(22)	(3,134)
Balance at end of financial year	**8,204**	**217**	**8,421**
Current provisions	3,780	18	3,798
Non-current provisions	4,424	199	4,623

The site closure provision relates to the closure of the Grain D'Or site during the year, the provision is based on best estimates of the outcome of negotiations. Whilst site exit negotiations are continuing the expectation is that these will conclude within the new financial year.

The pension provision relates to a contractual liability for pension augmentation, the amount utilised during the year represents payments in relation to the augmentations which are being paid over 14 years.

20. Deferred Tax Assets and Liabilities

Recognised Deferred Tax Assets and Liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities	
	2018 £000	2017 £000	**2018 £000**	2017 £000
Intangibles	**-**	-	**(1,148)**	(1,239)
Property, plant and equipment	**73**	651	**-**	-
Foreign exchange contracts	**7**	40	**-**	(25)
Short-term temporary differences	**28**	73	**-**	-
Interest rate swaps	**-**	-	**(95)**	(71)
Pension scheme charges	**1,791**	1,785	**-**	-
Employee share scheme charges	**711**	460	**-**	-
Losses	**1,280**	1,054	**-**	-
Tax assets/(liabilities)	**3,890**	4,063	**(1,243)**	(1,335)
Net tax assets/(liabilities)	**2,647**	2,728	**-**	-

Short-term temporary differences relate to general provisions which will be allowed when utilised. The deferred tax asset recognised for losses relate to acquired businesses, based on current and forecast levels of profitability, the losses are expected to be utilised within 3 years.

Movement in Deferred Tax during the Year

	1 July 2017 £000	Recognised in income £000	Recognised in equity £000	**30 June 2018 £000**
Intangibles	(1,239)	91	-	**(1,148)**
Property, plant and equipment	651	(540)	-	**111**
Foreign exchange contracts	15	(8)	-	**7**
Short-term temporary differences	73	(83)	-	**(10)**
Interest rate swaps	(71)	(24)	-	**(95)**
Pension scheme	1,785	(23)	29	**1,791**
Employee share scheme	460	193	58	**711**
Losses	1,054	226	-	**1,280**
	2,728	(168)	87	**2,647**

	2 July 2016 £000	Recognised in income £000	Recognised in equity £000	1 July 2017 £000
Intangibles	(1,409)	170	-	(1,239)
Property, plant and equipment	(138)	789	-	651
Foreign exchange contracts	3	12	-	15
Short-term temporary differences	37	36	-	73
Interest rate swaps	25	(96)	-	(71)
Pension scheme	1,163	1	621	1,785
Employee share scheme	202	211	47	460
Losses	2,062	(1,008)	-	1,054
	1,945	115	668	2,728

The deferred tax liability in respect of intangible assets will unwind in line with the amortisation of the intangible assets.

21. Financial Risk Management

The main purpose of the Group's financial instruments is to finance the Group's operations. The financial instruments comprise of revolving credit facility, interest rate swaps, foreign currency forwards, cash and liquid resources and various items arising directly from its operations, such as trade receivables and trade payables, the main risks arising from the Group's financial instruments are interest rate risk and liquidity risk. The Group's policies on the management of liquidity, credit, interest rate and foreign currency risks are set out below and the main risks are also referred to in the Strategic Report on pages 23 to 24.

a) Fair Values of Financial Instruments

All financial assets and liabilities are held at amortised cost apart from forward exchange contracts and interest rate swaps, which are held at fair value, with changes going through the Consolidated Statement of Profit and Loss. The Group has not disclosed the fair values for financial instruments such as short-term trade receivables and payables, because their carrying amounts are a reasonable approximation of fair values.

The fair values of forward exchange contracts and interest rate swaps are determined using a market comparison valuation technique. The fair values are based on broker quotes. Similar contracts are traded in an active market and the quotes reflect the actual transactions in similar instruments. The fair values relating to these instruments represent level 2 in the fair value hierarchy which relates to the extent the fair value can be determined by reference to comparable market values. The classifications range from level 1 where instruments are quoted on an active market through to level 3 where the assumptions used to arrive at fair value do not have comparable market data.

b) Liquidity

The Group's policy is to ensure that it has sufficient facilities to cover its future funding requirements. Short-term flexibility is available through the existing bank facilities and the netting off of surplus funds. The carrying amounts are the amounts due if settled at the period end date. The contractual undiscounted cash flows include estimated interest payments over the life of these facilities. The estimated interest payments are based on interest rates prevailing at the 30 June 2018.

		Contractual cashflows including estimated interest				
At year ended 30 June 2018	**Carrying amount £000**	Total £000	1 year or less £000	1 to 2 years £000	2 to 5 years £000	5 years and over £000
Non-derivative financial liabilities						
Secured bank loans	**(25,000)**	(25,037)	(25,037)	–	–	–
Finance lease liabilities	**–**	–	–	–	–	–
Invoice discounting	**–**	–	–	–	–	–
Trade creditors	**(37,210)**	(37,210)	(37,210)	–	–	–
	(62,210)	(62,247)	(62,247)	–	–	–

		Contractual cashflows including estimated interest				
At year ended 1 July 2017	**Carrying amount £000**	Total £000	1 year or less £000	1 to 2 years £000	2 to 5 years £000	5 years and over £000
Non-derivative financial liabilities						
Secured bank loans	**(8,683)**	(9,162)	(3,110)	(3,042)	(2,390)	(620)
Finance lease liabilities	**(57)**	(58)	(58)	–	–	–
Invoice discounting	**(11,646)**	(11,646)	(11,646)	–	–	–
Trade creditors	**(36,663)**	(36,663)	(36,663)	–	–	–
	(57,049)	(57,529)	(51,477)	(3,042)	(2,390)	(620)

The information relating to the interest rate swaps shown in the tables above indicate the cash flows associated with these instruments. This also reflects the expected effect on the future profit. These amounts will change as interest rates change.

Short-term flexibility is available through existing bank facilities and the netting off of surplus funds.

21. Financial Risk Management (continued)

c) Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers. These trading exposures are monitored and managed at operating level and are also monitored at Group level. Whilst there is a concentration of credit risk arising from the profile of five customers accounting for 57% of total revenue, the Group deems this to be low risk due to the nature of these customers. The carrying amount of the financial assets represents the maximum credit exposure. Therefore, the maximum exposure to credit risk for the trade receivables at the period end date was £40.0 million (2017: £45.2 million) and the ageing of trade receivables at the period end date was:

	2018 £000	2017 £000
Not past due	**35,806**	41,553
Past due 0-30 days	**3,248**	3,236
Past due 31-120 days	**869**	317
Past due more than 120 days	**44**	57
	39,967	45,163

The above numbers are net of impairment provisions. Group policy is to provide in full against all receivable balances whose full recovery is significantly in doubt. The provision is netted off the gross receivable.

The Group's strategy is to focus on supplying UK multiple grocers and foodservice distributors, the nature of these customers is such that there is a relatively low risk of them failing to meet their contractual obligations. There is no impairment necessary to the value of trade receivables at the period end date over and above the specific credit note provision and bad debt provision held at the year end. The balance of £0.9 million past due by more than 30 days is equivalent to less than 2 days sales (2017: £0.4 million, equivalent to less than 1 day).

d) Market Risk

i) Interest Rate Risk

The Group's interest rate risk exposure is primarily to changes in variable interest rates. The Group has entered into three interest rate swap arrangements in order to hedge its risks associated with any fluctuations. Details of swaps are given in Note 12.

The profile of the Group's loans and overdraft at the period end date were split as follows:

	2018 £000	2017 £000
Variable rate liabilities	**25,000**	20,497

Swaps amounting to £20.0 million (2017: Nil) limit the risk associated with the variable rate liabilities. The interest rate for the forward dated swap is 0.455% (2017: Nil coverage).

Sensitivity

A 1% increase in the base rate or LIBOR would have the following impact on interest charges and associated net assets for the Group, this sensitivity relates to interest-bearing bank borrowings and interest rate swaps only and excludes possible changes in pension financing costs.

	2018 £000	2017 £000
Profit decrease	**250**	197
Decrease in net assets	**250**	197

A 1% decrease in the base rate or LIBOR would have an equal and opposite impact to those listed above.

The above movement is not equal to 1% of interest-bearing loans because of interest rate swap cover that is in place.

ii) Commodity Prices

Any rises in commodity prices can adversely impact the core profitability of the business. The Group will aim to pass on its increased costs to its customers as far as is reasonable in the circumstances whilst maintaining its tight control over overhead costs to mitigate the impact on consumers. The Group maintains a high expertise in its buying team and will consider long-term contracts where appropriate to reduce uncertainty in commodity prices. Further information on input prices and risks is contained in the Strategic Report.

iii) Foreign Exchange Risk

The Group currently supplies UK manufactured products to Lightbody Stretz Ltd, its 50% owned selling and distribution business trading primarily in Europe. The Group also purchases some raw materials and capital equipment in foreign currency. The consequence of this is that the Group is exposed to movement in foreign currency rates. Forward foreign exchanges contracts are used to manage the net foreign exchange exposure.

21. Financial Risk Management (continued)

e) Debt and Capital Management

The Group's objective is to maximise the return on net invested capital while maintaining its ongoing ability to operate and guaranteeing adequate returns for shareholders and benefits for other stakeholders, within a sustainable financial structure. An interim dividend for the six months to 30 December 2017 of 1.1p per share was paid on 22 April 2017 to shareholders on the register at the close of business on 3 April 2017. Subject to shareholder approval at the Company's AGM on 21 November 2018, the final dividend of 2.2p per share will be paid on 21 December 2018 to all shareholders on the register at 23 November 2018. 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.

The Group manages its capital by monitoring its gearing ratio on a regular basis, there are also covenant tests which are monitored regularly and presented to the Group's banks every six months. There have been no breaches of covenant tests during the year and the gearing ratio stands at 0.1 (2016: 0.2). The gearing ratio is calculated taking the total net debt including deferred consideration over net assets.

The Group considers its capital to include share capital, share premium and capital redemption reserve.

The Group does not have any externally imposed capital requirements.

22. Capital and Reserves

The reconciliation of movement in capital and reserves is shown as a primary statement: Consolidated Statement of Changes in Equity on page 55.

Equity comprises the following:

- Share capital representing the nominal value of equity shares;
- Share premium representing the excess of the fair value of consideration received for the equity shares; (net of expenses of the share issue) over nominal value of the equity shares;
- Capital redemption reserve representing the buyback and cancellation of shares at nominal value;
- Employee share reserve representing ordinary shares held in an employee benefit trust (EBT) to satisfy awards made to employees;
- Retained earnings representing retained profits

23. Share Capital

	2018 000's	2017 000's
In issue at beginning of the financial year	**130,383**	130,383
Shares issued	**-**	-
In issue at end of the financial year – fully paid	**130,383**	130,383

	£000	£000
Allotted, called up and fully paid		
Ordinary shares of 1p each	**1,304**	1,304

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. Shares are held in an Employee Benefit Trust, which is intended to be used to satisfy awards made to employees (2,704,030 shares were held at the year end). All shares are the same class with equal rights.

23. Share Capital (continued)

Share Based Payments

The Group operates both approved and unapproved share option schemes.

The fair value is calculated at the grant date and ultimately expensed in the Consolidated Statement of Profit and Loss over the vesting period, based on the best available estimate of the number of share options expected to vest, with a corresponding credit to reserves. Upon exercise of the share options the proceeds received net of attributable transaction costs are credited to share capital and where appropriate share premium.

There were a number of options granted during the course of the financial year to 30 June 2018 with further details given below:

Date of grant	Number of options granted	Number of options expected to vest	Exercise price	Fair value £000	**Amount expensed in year to 30 June 2018 £000**	Period of expense
26 October 2017	858,659	503,260	Nil	364	**83**	4.7 years
26 October 2017	753,469	697,195	Nil	448	**102**	4.7 years
Charge relating to options granted in the current year					**185**	
Charge relating to options granted in prior years					**953**	
Charge included in Administrative expenses					**1,138**	

There were a number of options granted during the course of the financial year to 1 July 2017 with further details given below:

Date of grant	Number of options granted	Number of options expected to vest	Exercise price	Fair value £000	Amount expensed in year to 1 July 2017 £000	Period of expense
29 September 2016	889,996	889,996	Nil	760	190	3 years
29 September 2016	544,384	544,384	Nil	524	131	3 years
Charge relating to options granted in the current year					321	
Charge relating to options granted in prior years					919	
Charge included in Administrative expenses					**1,240**	

Details of share options outstanding at 30 June 2018 and movements during the year by exercise price is shown below:

Exercise price	First exercise date	Last exercise date	At 1 July 2017	Granted	Forfeited	Cancelled	Exercised	At 30 June 2018
58.0p	May 2017	May 2024	-	-	-	-	-	**-**
54.8p	Jul 2017	Jul 2024	155,172	-	-	-	(155,172)	**-**
Nil	Sep 2018	Dec 2025	394,081	-	-	(32,121)	-	**361,960**
Nil	Jul 2019	Jun 2025	1,859,115	-	-	(47,409)	-	**1,811,706**
Nil	Jul 2020	Dec 2025	1,200,146	-	-	-	-	**1,200,146**
Nil	Jun 2021	Sep 2026	889,996	-	-	-	-	**889,996**
Nil	Sep 2019	Sep 2026	544,384	-	-	(37,416)	-	**506,968**
Nil	Jul 2022	Oct 2027	-	753,469	-	-	-	**753,469**
Nil	Jul 2022	Oct 2027	-	858,659	-	-		**858,659**
			5,042,894	1,612,128	-	(116,946)	(155,172)	**6,382,904**

23. Share Capital (continued)

A summary of share options outstanding and movements for the year to 1 July 2017 is shown below:

	At 2 July 2016	Granted	Forfeited	Cancelled	Exercised	At 1 July 2017
Number of options	3,941,171	1,434,380	-	(29,899)	(302,758)	5,042,894

There were no options exercisable at the period end date (2017: nil). There were 155,172 options exercised during the year (2017: 302,758). The average share price at dates of exercise was 115p per share (2017: 114p per share).

The options outstanding at the year end have weighted average exercise price of Nil (2017: 1.7p) and a weighted average contractual life of 3.9 years (2017: 5.9 years).

The Company uses a Monte Carlo model for the valuation of the award subject to relative performance to the TSR of AIM listed companies. An external consultant assists with the valuation of the awards.

The key inputs into the Monte Carlo model are as follows:

	2018	2017
Expected life of option	**3.0 years**	3.0 years
Volatility of share price	**23%**	25%
Dividend yield	**2.8%**	2.1%
Risk free discount rate	**0.6%**	0.10%
Share price at grant date	**108.0p**	126.5p
Exercise price	**Nil**	Nil

24. Dividends

On 22 December 2017, a final dividend for the year ended 1 July 2017 of 2.0p per share was paid to shareholders on the register at the close of business on 24 November 2017, the amount paid was £2,553,413.

An interim dividend for the six months to 30 December 2017 of 1.1p per share was paid on 27 April 2018 to shareholders on the register at the close of business on 3 April 2018. The amount paid was £1,404,473. A final dividend for the year ended 30 June 2018 of 2.2p per share has been proposed taking the total dividend for the year to 3.3p per share. Subject to shareholder approval at the Company's AGM on 21 November 2018, the final dividend will be paid on 21 December 2018 to shareholders on the register at 23 November 2018.

During the year a dividend of £799,000 (2017: £705,000) was paid to the holders of the non-controlling interest in Lightbody Stretz Ltd.

25. Operating Leases

The Group has annual commitments under non-cancellable operating leases relating primarily to land and buildings, fork lift trucks and office equipment. Land and buildings have been considered separately for lease classification. Land and buildings amounts relate to leasehold properties at the Nicholas & Harris site, part of the Lightbody of Hamilton site, Fletchers' sites in London and Manchester and Johnstone's site in East Kilbride.

During the year £2,099,000 was recognised as an expense in the Consolidated Statement of Profit and Loss in respect of operating leases (2017: £2,839,000).

Future minimum lease repayments under non-cancellable operating leases at the end of the financial periods are as follows:

	Land and Buildings		Other	
	2018 £000	2017 £000	**2018 £000**	2017 £000
On leases which expire in:				
Less than one year	**2,066**	2,372	**956**	839
Between one and five years	**6,604**	7,979	**1,023**	1,064
More than five years	**6,809**	7,805	**29**	29
	15,479	18,156	**2,008**	1,932

26. Capital Commitments

At the financial year ended 30 June 2018, the Group had capital expenditure commitments of £259,000 (2017: £429,000).

27. Related Parties

Related Party Transactions and Directors' Material Interests in Transactions

A 50% owned subsidiary, Lightbody Stretz Ltd, paid Mr P Stretz, the Managing Director of Lightbody Stretz Ltd, £73,000 (2017: £55,000) in respect of rent for offices. No balances were outstanding at either year end.

The Group paid £33,000 (2017: £31,000) for the supply of finished products from and received £32,000 (2017: £52,000) for the sale of finished products to Party Fizz, a company 50% owned by Mr P Stretz. The amount payable and receivable at the year end was £nil (2017: £nil) and £2,000 (2017: £3,000) respectively.

The Group sold finished product to Dr Zak's for a value of £98,000 during the year (2017: £196,000), the amount receivable at the year end was £104,000 (2017: £68,000).

Transactions with the Memory Lane Pension Scheme are detailed in Note 13.

Mr P Baker is a Director of Crosta & Mollica Limited. The Group sold finished product to Crosta & Mollica for a value of £154,000 (2017: £284,000), the amount receivable at the year end was £nil (2017: £36,000).

Transactions with Key Management Personnel

Directors of the Company and their immediate relatives control 3% (2017: 3%) of the voting shares of the Company.

The aggregate compensation of key management personnel (Main Board Executive Directors, Divisional MDs, and Executive Committee) is as follows:

	2018 £000	2017 £000
Company contributions to money purchase pension schemes	**55**	62
Executive salaries and benefits	**1,702**	1,663
Executive bonuses	**562**	1,683
	2,319	3,408

Share options held by Group Directors are set out in Note 6. Details of share options outstanding at 30 June 2018 for other key management personnel by exercise price is shown in the table below:

Exercise price	**Number of options at 30 June 2018**	Number of options at 1 July 2017	Earliest exercise date	Exercise expiry date
Nil	**304,068**	-	02/07/2022	26/10/2027
Nil	**338,951**	338,951	30/09/2019	29/09/2026
Nil	**279,596**	279,596	30/09/2018	04/12/2025
54.75p	**-**	51,724	03/07/2017	03/07/2024
	922,615	670,271		

28. Ultimate Parent Company

Finsbury Food Group Plc is the ultimate Parent Company, contact details on page 97.

29. Post Balance Sheet Events

On 3 September 2018, the Company acquired 100% of the share capital of Ultrapharm Limited, a Free From bakery manufacturer, supplying an extensive product range including bread, buns and rolls and other morning goods to a diverse blue chip customer base.

The acquisition of Ultrapharm supports the Group's ongoing strategy to further diversify its product capability into high growth areas and to expand the Group's existing facilities to manufacture Free From products, a category of which the Group has previous expertise.

Ultrapharm employs more than 240 people across manufacturing sites in the UK and in Poland, for the year ended 31 December 2017, Ultrapharm generated EBITDA of £1.6 million and a profit before tax of £0.8 million on revenues of £19.5 million. As at the 31 December 2017, gross assets were £10.8 million.

The total consideration is split between £17.0 million payable in cash on completion, up to £3.0 million in annual instalments to the period to 30 June 2021 subject to the continued employment of key management and a final incentive payment subject to performance criteria over the period to 30 June 2021 estimated at approximately £1.0 million. The consideration will be funded from the Group's existing cash and debt facilities. The professional costs associated with the acquisition included with significant non-recurring items under administrative expenses in the Group's Profit and Loss for the 52 weeks ended 30 June 2018 is £432,500.

Given the timing of the acquisition, the initial accounting for the business combination including the associated fair value exercise has not been completed at the time the Annual Report is authorised.

Therefore, it is impracticable to provide certain related information required by IFRS 3.B64 at this time.

Company Balance Sheet

at 30 June 2018 and 1 July 2017

	Note	2018 £000	2017 £000
Non-current assets			
Investments	37	**101,009**	100,827
Deferred taxation	38	**712**	460
Unamortised bank fees		**248**	-
		101,969	101,287
Current assets			
Debtors	39	**43,046**	25,173
Other financial assets – fair value foreign exchange contracts		**558**	560
Cash and cash equivalents		**8,305**	6,509
		51,909	32,242
Creditors: amounts falling due within one year	41	**(31,719)**	(9,633)
Net current assets		**20,190**	22,609
Total assets less current liabilities		**122,159**	123,896
Creditors: amounts falling due after more than one year	42&43	**(95)**	(5,896)
Net assets		**122,064**	118,000
Capital and reserves			
Called up share capital	44	**1,304**	1,304
Share premium account	44	**64,956**	64,956
Capital redemption reserve	44	**578**	578
Employee share reserve		**(3,282)**	(3,585)
Profit and loss account	45	**58,508**	54,747
Shareholders' funds		**122,064**	118,000

These Financial Statements were approved by the Board of Directors on 14 September 2018 and were signed on its behalf by:

Stephen Boyd
Director

Registration number: 00204368

The Notes on pages 89 to 96 form an integral part of these Financial Statements.

Company Statement of Changes in Equity

for the 52 weeks ended 30 June 2018 and 52 weeks ended 1 July 2017

	Note	Share capital £000	Share premium £000	Capital redemption reserve £000	Employee share reserve £000	Retained earnings £000	Total equity £000
Balance at 2 July 2016		1,304	64,956	578	(3,920)	51,021	113,939
Loss for the financial year		-	-	-	-	(157)	(157)
Total comprehensive loss for the period		**-**	**-**	**-**	**-**	**(157)**	**(157)**
Transactions with owners, recorded directly in equity:							
Shares issued from EBT		-	-	-	335	(158)	177
Shares issued during the year	23	-	-	-	-	-	-
Impact of share based payments charge to subsidiaries		-	-	-	-	(5)	(5)
Impact of share based payments	23	-		-	-	1,240	1,240
Deferred tax on share options		-	-	-	-	47	47
Dividend received		-	-	-	-	6,404	6,404
Dividend paid	24	-	-	-	-	(3,645)	(3,645)
Balance at 1 July 2017		**1,304**	**64,956**	**578**	**(3,585)**	**54,747**	**118,000**
Balance at 1 July 2017		1,304	64,956	578	(3,585)	54,747	118,000
Profit/(loss) for the financial year		-	-	-	-	(646)	(646)
Total comprehensive loss for the period		**-**	**-**	**-**	**-**	**(646)**	**(646)**
Transactions with owners, recorded directly in equity:							
Shares issued from EBT		-	-	-	303	(217)	86
Shares issued during the year	23	-	-	-	-	-	-
Impact of share based payments charge to subsidiaries		-	-	-	-	(13)	(13)
Impact of share based payments	23	-	-	-	-	1,138	1,138
Deferred tax on share options		-	-	-	-	58	58
Dividend received		-	-	-	-	7,399	7,399
Dividend paid	24	-	-	-	-	(3,958)	(3,958)
Balance at 30 June 2018		**1,304**	**64,956**	**578**	**(3,282)**	**58,508**	**122,064**

The Notes on pages 89 to 96 form an integral part of these Financial Statements.

Notes to the Company's Financial Statements

(forming part of the Financial Statements)

30. Accounting Policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Financial Statements.

Basis of Preparation

The financial year was the 52 weeks ended 30 June 2018 (prior financial year 52 weeks ended 1 July 2017).

These Financial Statements were prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* ("FRS 101").

In preparing these Financial Statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The Company proposes to continue to adopt the reduced disclosure framework of FRS 101 in its next Financial Statements.

Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own Profit and Loss Account. The profit or loss for the year is set out in the Statement of Changes in Equity.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under the standard in relation to the following disclosures;

- Presentation of a Cash Flow Statement and related notes
- Capital management
- Comparative period reconciliations for share capital and tangible fixed assets
- Impairment of assets
- Transactions with wholly owned subsidiaries
- The effects of new but not yet effective IFRSs
- Key management personnel

As the consolidated Financial Statements of Finsbury Food Group Plc include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 *Share Based Payments* in respect of Group settled share based payments
- Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures

Where required equivalent disclosures are given in the Group accounts of Finsbury Food Group Plc, which are available within this report. The Financial Statements are prepared on the historical cost basis except where stated at their fair value. The principal accounting policies of the Company are as follows:

Investments

Investments are stated at cost less provision for any permanent impairment. Any impairment is charged to the profit and loss as it arises. Impairment to investments is tested via impairment testing performed over goodwill, as discussed in Note 1 of the Group Significant Accounting Policies.

Foreign Currency

Transactions in foreign currencies are translated to Sterling at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the period end date are retranslated to Sterling at the foreign exchange rate ruling at that date.

Any exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were initially recorded are recognised in the Consolidated Statement of Profit and Loss in the period in which they arise.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to Sterling, at foreign exchange rates ruling at the period end date. The revenues and expenses of foreign operations are translated at an average rate for the year where this rate approximates to the foreign exchange rates ruling at the dates of the transactions. This revaluation is recognised through Other Comprehensive Income.

Derivative Financial Instruments

The Company has derivative financial instruments in respect of interest rate swaps and foreign exchange hedges. The Company does not hold derivative financial instruments for trading purposes. The existing interest rate swaps and foreign exchange hedges used by the Company while they function as hedges, do not meet the criteria for hedge accounting set out by IAS 39, and have thus been treated as financial assets and liabilities which are carried at their fair value in the Company Balance Sheet. Fair value is deemed to be market value, which is provided by the counterparty at the year end date.

Changes in the market value of interest rate swaps have been recognised through the Consolidated Statement of Profit and Loss as finance income or cost. Changes in the market value of foreign exchange hedges have been recognised through the Consolidated Statement of Profit and Loss within administrative costs.

Notes to the Company's Financial Statements

30. Accounting Policies (continued)

Non-derivative Financial Instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Unless otherwise indicated, the carrying amounts of the Group's financial assets and liabilities are a reasonable approximation of their fair values.

Trade and Other Payables
The value of trade and other payables is the value that would be payable to settle the liability at the period end date.

Cash and Cash Equivalents
Cash and cash equivalents comprise cash balances. Bank overdrafts that are repayable on demand and which form an integral part of the Group's cash management are included as a component of cash and cash equivalents.

Interest-bearing Borrowings
Interest-bearing borrowings are stated at amortised cost using the effective interest method.

Share Based Payment Transactions

The value, as at the grant date, of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted.

Taxation

The credit for taxation is based on the loss for the year and takes into account taxation deferred because of temporary differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all temporary differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date.

Going Concern

After making enquiries and on the basis of current financial projections and available funds and facilities, the Directors are satisfied that the Company has adequate resources to continue in operation for the next 12 months and, therefore, consider it appropriate to prepare the Financial Statements on the going concern basis.

Shares held by Employee Share Trusts

Shares held to satisfy options are accounted for in accordance with IAS 32 'Financial Instruments'. All differences between the purchase price of the shares held to satisfy options granted and the proceeds received for the shares, whether on exercise or lapse, are charged to reserves.

31. Remuneration of Directors

Details of Directors' remuneration are set out in Note 6 of the Group's Financial Statements.

32. Staff Numbers and Costs

The average number of persons employed by the Company (including Directors) during the year, analysed by category, was as follows:

	Number of employees 2018	Number of employees 2017
Directors and administrative staff	**44**	39

The aggregate payroll costs of these persons were as follows:

	2018 £000	2017 £000
Wages and salaries	**4,354**	4,219
Social security costs	**465**	382
Other pension costs	**249**	198
	5,068	4,799

33. Share Based Payments

Details of Directors share options are set out in Note 6 of the Group's Financial Statements and details of all share options issued are set out in Note 23 to the Group Financial Statements. During the year 496,429 (2017: 330,301) of the total 858,659 (2017: 544,384) share options granted were issued to employees of the Company. The remaining options were granted to employees of the subsidiary companies with corresponding charges to the relevant profit and loss accounts. The total charge in the financial year to the Company for all share options relating to current and prior years was £944,000 (2017:1,084,000). Credits relating to options exercised, cancelled or lapsed after vesting have also been passed to the subsidiaries during the year. The charge totalled £194,000 (2017: £151,000) and has resulted in an increase (2017: increase) in the total cost of investments in the Company balance sheet. Details of Directors' share options are set out in Note 6 of the Group's Financial Statements.

34. Finance Income and Cost

Recognised in the Company Statement of Profit and Loss

	2018 £000	2017 £000
Finance income		
Change in fair value of interest rate swaps	**143**	555
Inter-group recharge	**182**	157
Bank interest receivable	**1**	1
Income from interest rate swap agreements	**2**	-
Total finance income	**328**	713
Finance cost		
Bank interest payable	**(406)**	(428)
Interest on interest rate swap agreements	**-**	(125)
Total finance cost	**(406)**	(553)
Net finance cost	**(78)**	160

35. Dividends

On 22 December 2017, a final dividend of 2.0p per share was paid to shareholders on the register at the close of business on 24 November 2017, the amount paid was £2,553,413. An interim dividend for the six months to 30 December 2017 of 1.1p per share was paid on 27 April 2018 to shareholders on the register at the close of business on 3 April 2018. The amount paid was £1,404,473.

A final dividend of 2.2p per share has been proposed taking the total dividend to 3.3p per share. Subject to shareholder approval at the Company's AGM on 21 November 2018, the final dividend will be paid on 21 December 2018 to all shareholders on the register at 23 November 2017.

36. Investment in Subsidiaries and Equity Accounted Investees

Set out below are all undertakings of the Company whose results are included in the Consolidated Financial Statements for the period ended 30 June 2018.

Subsidiary	Direct/Indirect ownership	Country of incorporation	Class of shares held	2018	2017
Anthony Alan Foods Ltd Maes Y Coed Rd, Cardiff, CF14 4XR	Direct	England and Wales	Ordinary £1	**100%**	100%
California Cake Company Ltd 73 Bothwell Rd, Hamilton, ML3 0DW	Indirect	Scotland	Ordinary £1	**100%**	100%
California Cake Company (Holdings) Ltd 73 Bothwell Rd, Hamilton, ML3 0DW	Direct	Scotland	Ordinary £1	**100%**	100%
Campbells Cake Company Ltd 73 Bothwell Rd, Hamilton, ML3 0DW	Indirect	Scotland	Ordinary £1	**100%**	100%
Campbells Cake (Holdings) Ltd 73 Bothwell Rd, Hamilton, ML3 0DW	Direct	Scotland	Ordinary £1	**100%**	100%
Dr Zak's Ltd Unit 3 Stirling Court, Stirling Way, Borehamwood, WD6 2BT	Indirect	England and Wales	Ordinary £1	**31%**	31%
Fennel Acquisition Ltd Maes Y Coed Rd, Cardiff, CF14 4XR	Direct	England and Wales	Ordinary £1	**100%**	100%
Fletchers Bakeries Ltd Maes Y Coed Rd, Cardiff, CF14 4XR	Indirect	England and Wales	Ordinary £1	**100%**	100%
Fletchers Bakeries Investment Ltd Maes Y Coed Rd, Cardiff, CF14 4XR	Indirect	England and Wales	Ordinary £1	**100%**	100%
Goswell Enterprises Ltd Maes Y Coed Rd, Cardiff, CF14 4XR	Indirect	England and Wales	Ordinary £1	**100%**	100%
Goswell Marketing Ltd Maes Y Coed Rd, Cardiff, CF14 4XR	Indirect	England and Wales	Ordinary £1	**100%**	100%
Johnstone's Food Service Ltd 73 Bothwell Rd, Hamilton, ML3 0DW	Indirect	Scotland	Ordinary £1	**100%**	100%
Lightbody Celebration Cakes Ltd 73 Bothwell Rd, Hamilton, ML3 0DW	Indirect	Scotland	Ordinary £1	**100%**	100%
Lightbody Group Ltd 73 Bothwell Rd, Hamilton, ML3 0DW	Direct	Scotland	Ordinary £1	**100%**	100%
Lightbody Holdings Ltd 73 Bothwell Rd, Hamilton, ML3 0DW	Indirect	Scotland	Ordinary £1	**100%**	100%
Lightbody of Hamilton Ltd 73 Bothwell Rd, Hamilton, ML3 0DW	Indirect	Scotland	Ordinary £1	**100%**	100%
Lightbody-Stretz Ltd 73 Bothwell Rd, Hamilton, ML3 0DW	Indirect	Scotland	Ordinary £1	**50%**	50%
Lightbody Europe SAS 14 Allée Coysevox, CS 56939, 35069 Rennes Cedex France	Indirect	France	Ordinary £1	**50%**	50%
Memory Lane Cakes Ltd Maes Y Coed Rd, Cardiff, CF14 4XR	Direct	England and Wales	Ordinary 1p	**100%**	100%
Murray Traders Ltd 3 Inch Marnock, St Leonards, East Kilbride, South Lanarkshire, G74 2JQ	Indirect	Scotland	Preference £1	**10.5%**	10.5%
Nicholas & Harris Ltd Maes Y Coed Rd, Cardiff, CF14 4XR	Indirect	England and Wales	Ordinary £1	**100%**	100%
Storesurvey Ltd Maes Y Coed Rd, Cardiff, CF14 4XR	Direct	England and Wales	Ordinary £1	**100%**	100%

Notes to the Company's Financial Statements

37. Fixed Asset Investments

	£000
Cost	
At beginning of financial year	100,827
Additions	182
At end of financial year	101,009
Net book value	
At 30 June 2018	**101,009**
At 1 July 2017	100,827

The additions relate to share option charge of £182,000 (2017: £151,000) passed down to individual subsidiaries.

38. Deferred Tax

Recognised deferred tax assets and liabilities:

	Assets		Liabilities	
	2018 £000	2017 £000	**2018 £000**	2017 £000
Employee share scheme charges	**712**	460	**-**	-
Interest rate swaps	**-**	-	**(95)**	(71)
Foreign exchange contracts	**-**	-	**-**	(25)
Tax assets/(liabilities)	**712**	460	**(95)**	(96)
Net tax assets	**617**	364		

The deferred tax asset at 30 June 2018 has been calculated based on the rate of 17% substantively enacted at the balance sheet date.

Movement in Deferred Tax during the Year

	1 July 2017 £000	Recognised in income £000	Recognised in equity £000	**30 June 2018 £000**
Employee share scheme	460	194	58	**712**
Interest rate swaps	(71)	(24)	-	**(95)**
Foreign exchange contracts	(25)	25	-	**-**
	364	195	58	**617**

Movement in Deferred Tax during the Prior Year

	2 July 2016 £000	Recognised in income £000	Recognised in equity £000	**1 July 2017 £000**
Employee share scheme	202	211	47	**460**
Interest rate swaps	25	(96)	-	**(71)**
Foreign exchange contracts	(89)	64	-	**(25)**
	138	179	47	**364**

39. Debtors

	2018 £000	2017 £000
Amounts owed by Group undertakings	**42,907**	24,928
Other taxation	**63**	57
Prepayments and accrued income	**76**	188
	43,046	25,173

Notes to the Company's Financial Statements

40. Forward Foreign Exchange Contracts at Fair Value

The Group has entered into a number of forward foreign exchange contracts to minimise the impact of fluctuations in exchange rates. A charge of £145,000 (2017: charge £350,000) is included in administrative expenses for the periods reflecting changes in their fair value. The closing fair value is nil (2017: £145,000 asset).

41. Creditors: Amounts Falling Due Within One Year

	2018 £000	2017 £000
Bank loan	**24,932**	2,883
Trade creditors	**111**	45
Amounts due to Group undertakings	**20**	52
Corporation tax	**106**	134
Other taxes and social security	**151**	122
Accruals and deferred income	**6,399**	6,397
	31,719	9,633

Other Financial Liabilities – Fair Value Interest Rate Swaps

The Group has one interest rate swap for five years from 3 July 2017 with a coverage of £20.0 million fixed at a rate of 0.455%.

There was 80% coverage at year end (2017: £nil).

A credit of £143,000 (2017: £555,000) is shown in finance income for the previous year reflecting changes in the fair values of interest rate swaps. The fair values are liabilities as a result of the current low levels of base and LIBOR interest rates. The closing fair value of the asset is £558,000 (2017: £415,000).

42. Creditors: Amounts Falling Due After More Than One Year

	2018 £000	2017 £000
Total bank loans and mortgages	**-**	5,800
Deferred tax liability	**95**	96
	95	5,896

HSBC Bank Plc, HSBC Asset Finance (UK) Ltd, HSBC Equipment Finance (UK) Ltd and HSBC Corporate Trustee Company (UK) Limited have debentures incorporating fixed and floating charges over the undertaking and all property and assets including goodwill, book debts, uncalled capital, buildings, fixtures, fixed plant and machinery.

Notes to the Company's Financial Statements

43. Interest-bearing Loans and Borrowings

This Note provides information about the contractual terms and repayment schedule of the Company's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate risk, see Note 21.

2018	Currency	Margin	Above	Frequency of repayments	Year of maturity	Total £000	Current £000	Non-current £000
Revolving credit	GBP	1.30%	LIBOR	Varies	45,000	25,000	25,000	-
Unamortised transaction costs						(315)	(315)	-
						24,685	24,685	-

2017	Currency	Margin	Above	Frequency of repayments	Year of maturity	Total £000	Current £000	Non-current £000
Term loan	GBP	2.00%	LIBOR	Quarterly	2019	6,337	2,568	3,769
Revolving credit	GBP	2.00%	LIBOR	Varies	2019	-	-	-
Mortgage	GBP	1.75%	LIBOR	Quarterly	2022	2,457	369	2,088
Unamortised transaction costs						(111)	(54)	(57)
						8,683	2,883	5,800

Repayments are as follows:	
Between one and two years	2,894
Between two and five years	2,292
Between five and ten years	614
Between ten and fifteen years	-
	5,800

44. Called Up Share Capital

Note 23 in the Group Financial Statements gives details of called up share capital.

45. Capital and Reserves

The reconciliation of the movement in capital and reserves is shown as a primary statement in the Company's Financial Statements: Company Statement of Changes in Equity on page 88 with definition details in Note 22 to the Consolidated Financial Statements.

46. Contingent Liabilities

The Company has guaranteed the overdrafts of its subsidiaries; there was a net cash position at the year end of £9,363,000 (2017: £3,024,000).

47. Related Party Disclosures

Note 27 in the Group's Financial Statements gives details of related party transactions.

48. Financial Risk Management

The Company's policies on the management of liquidity, credit and interest rate risks are managed at a Group level and are set out in Note 21 in the Group's Financial Statements and also referred to in the Strategic Report.

Notes to the Company's Financial Statements

Presentation of Financial Statements

Basis of Preparation of Consolidated Financial Statements

The Group has adopted the following IFRSs in these Financial Statements:

- Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38 (effective date 1 January 2016)
- Equity Method in Separate Financial Statements – Amendments to IAS 27 (effective date 1 January 2016)
- Annual Improvements to IFRSs – 2012-2014 Cycle (effective date 1 January 2016)

The application of the above standards and interpretations has not had a material effect on the net assets, results and disclosures of the Group.

The IASB and the IFRIC have also issued the following standards and interpretations with an effective date after the date of these Financial Statements.

New Standards and Interpretations Endorsed but not yet Effective

- IFRS 9 Financial Instruments – effective 1 January 2018

  IFRS 9 Financial Instruments addressed the classification, measurement and recognition of financial assets and liabilities.

  The Group has an interest rate swap and foreign exchange forward contracts, these financial assets and liabilities are carried at their fair value in the Consolidated Statement of Financial Position. Fair value is deemed to be market value, which is provided by the counterparty at the year end date.

  The requirements of IFRS 9 have been reviewed in respect of the financial assets and financial liabilities of the Group for classification and measurement and impairment, and the current hedging arrangements have been considered. The Directors do not anticipate that the adoption of IFRS 9 will have a material impact on the Financial Statements of the Group.

- IFRS 15 Revenue from Contracts with Customers – effective 1 January 2018

  IFRS 15: 'Revenue from Contracts with Customers' will be effective for annual periods beginning on or after 1 January 2018, and therefore the Group will apply the standard for its reporting period commencing 1 July 2018.

  The standard, which replaces IAS 18 'Revenue' and IAS 11 'Construction contracts', deals with revenue recognition and establishes principles for reporting useful information about the nature, amount, timing and uncertainty of revenues and cash flows arising from the Group's contracts with its customers. The standard provides clarification about when control of goods is passed to customers and contains more guidance about the measurement of revenue contracts which have discounts, rebates and other payments to customers.

  The Group has considered its customer contracts, standard terms and conditions and agreed joint business plans when working through the five-step model of IFRS 15 to assess the impact of the adoption of the new standard on reported revenue. The areas the Group considered included a review of any variable consideration arrangements, such as rebates, promotions and other payments such as for range support and marketing.

  As a result of the review, it has been concluded that the Group's current accounting policies and practices are materially in line with the new accounting standard and therefore the adoption of IFRS 15 will not have a significant impact. The Group will continue to review transactions with customers to ensure compliance.

New Standards and Interpretations not yet Endorsed and not yet Effective

- IFRS 16 Leases – effective from 1 January 2019

  IFRS 16 Leases sets out the principle for the recognition, measurement, presentation and disclosure of leases for both lessee and lessor. It eliminates the classification of leases as either operating leases or finance leases and introduces a single lessee accounting model where the lessee is required to recognise assets and liabilities for all material leases that have a term of greater than a year. Note 25 details current leases.

  The Group will apply the standard for the reporting period commencing 30 June 2019. The Company has gathered a comprehensive database of all leases and will consider break clauses, rent reviews, material changes to contracts and appropriate discount rates. This work is ongoing to enable the modelling of the impact on adoption of the new standard.

- IFRS 2 Classification and Measurement of Share-based Payment Transactions – effective 1 January 2018

- Annual Improvements to IFRSs – 2014-2016 Cycle (effective date 1 January 2018)

- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration (effective date 1 January 2018)

Work will begin in the new financial year to assess the impact of the new standards and interpretations on the Group's Financial Statements.

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