



Always Fresh. Always Tasty.™



In 2013 we embarked on a new strategic path to focus on growth in the food-on-the-go market.

About Greggs

Greggs is a much-loved and trusted brand with a strong bakery heritage. We believe we can leverage our heritage in fresh bakery to compete successfully in the food-on-the-go market. The Greggs offer is differentiated by the fact that we freshly prepare food and drinks in our shops each day delivering an 'Always Fresh. Always Tasty' experience to our customers.

 More detail: *Greggs at a glance*
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Strategic highlights

Record number of 216 shops refurbished: Refit programme focused on bakery food-on-the-go format.

70 per cent of our new shops were opened in locations away from high streets.

Investment in improved availability and extended trading hours.

 More detail: *Chief Executive's Report*
P16

Encouraging results from product and category re-launches.

Strong growth from market leading Meal Deals.

A five-year process and systems transformation programme was announced.

Changes in 2013

In 2013 we made a number of strategic changes to help focus the business on our core food-on-the-go customers and return to delivering like-for-like sales growth. Whilst we continue to believe in the long-term opportunity to grow the number of Greggs shops, we will spend the next two to three years reshaping the business to meet our food-on-the-go customers' needs, ultimately building the platform for long-term sustainable profit growth for the benefit of shareholders, employees and the wider community.

 More detail: *Strategy*
P6

Financial highlights

Total sales up 3.8% to £762.4 million.

Full year like-for-like sales** down 0.8%.

Improving trend of like-for-like sales**, with H2 up 1.2% and Q4 up 2.6%.

Pre-tax profit* before exceptional items down 18.9% to £41.3 million.

Diluted earnings per share* before exceptional items down 20.1% to 30.6 pence.

Dividend per share maintained at 19.5p.

* Before exceptional pre-tax charge of £8.1m (2012: exceptional pre-tax credit of £1.4m).

** Like-for-like sales in own shops (excluding franchises) with a full year's trading history.

 More detail: *Financial Review*
P20

Chairman's Statement

Read about the overview of our year, changes within the Board and our prospects for 2014.



Chairman's Statement
P4

Strategic Changes

Find out more about our marketplace, our strategic redirection and our outlook for 2014.



Read Chief Executive's Report
P16

Financial Performance

Learn about the impact that our new business strategy has had on our 2013 sales performance in the Financial Review. More detailed information can be found in the Accounts Section.



Read Financial Review
P20

Strategic Report

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Greggs at a glance

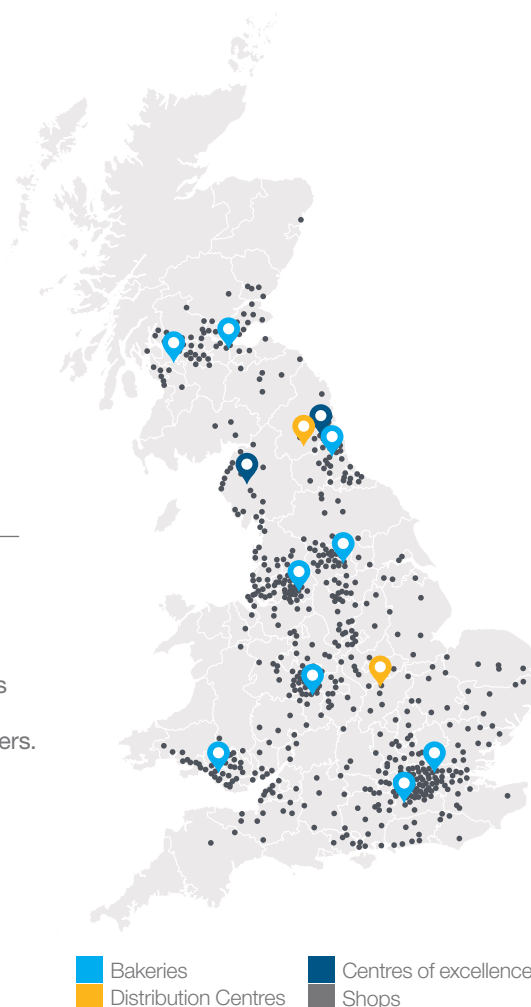
**With 1,671 shops,
nine regional bakeries
and 20,000 employees
who serve millions of
customers each week,
Greggs is the UK's
leading bakery food-
on-the-go retailer.**

What we do

Our supply network... comprises nine regional bakeries, two distribution centres and two centres of excellence. We own all our own bakeries and delivery network making and delivering fresh products every day to our shops.

Our shops... are being remodelled and resited to meet the demands of busy food-on-the-go customers. We now have 24 motorway service franchised operations.

Our food... is made with high quality, wholesome ingredients. Our daily fresh sandwiches and freshly baked savouries ensure that we deliver an 'Always Fresh. Always Tasty' experience to our customers.



Our vision and values

Our vision... is to be a winning brand in the food-on-the-go market.

Our people... are what makes our business successful. We aim to provide them with a great place to work, where they feel valued.

Our values... commit us to being enthusiastic and supportive in all that we do, open, honest and appreciative, treating everyone with fairness, consideration and respect.

Our commitment to making a difference... is deep rooted, and was cemented by the establishment of the Greggs Foundation in 1987. Along with our values it forms the bedrock of our approach to social responsibility.



Our business model at a glance

Our vertically-integrated operations

We own and operate a vertically-integrated supply chain, from production through distribution to point of sale. This means we can make great tasting, high quality bakery food at great prices, offering value for our customers.

Our target market

Whilst Greggs has defended its position as the leading retail bakery business it has underperformed in the food-on-the-go market as new entrants and existing competitors have rapidly expanded shop numbers and better met customer demands. Food-on-the-go is a £6 billion market growing at an annual rate of 9 per cent (source: Allegra). Greggs is a brand with broad appeal, attracting customers of all types and we have the opportunity to fulfil more of their needs by focusing on great tasting fresh food-on-the-go at all times of the day.

Our market locations

Convenience is key in the food-on-the-go market and we continue to open and re-locate shops to ensure that our estate is well-located. A high proportion of our openings are in areas away from traditional high streets as we diversify our portfolio in line with market trends. Working with franchise partners we have extended the Greggs offer to previously inaccessible transport locations.



2013 has been a year of significant change for Greggs.



Ian Durant Chairman

Market conditions continued to be challenging and sales and profit were below expectations, particularly in the first half. We conducted a strategic review and announced our plans to prepare Greggs for long-term profitable growth.

Overview

Following the appointment of Roger Whiteside as Chief Executive in the first half of the year, the senior management team, led by Roger, conducted a strategic review of the business, the results of which were announced in August.

As shopping habits have changed over the years, Greggs has developed to become predominantly a bakery food-on-the-go operation and less of a bakery take-home business. Food-on-the-go in the UK is a growing market of £6 billion (source: Allegra) and some 75 per cent of customer visits to Greggs fulfil a food-on-the-go need.

As a result of the strategic review and the attractive fundamentals of the food-on-the-go market, a change programme was instigated to refocus our operations on this opportunity. The change programme will take a number of years to complete and will be underpinned by activity focusing on great tasting fresh food, a great shopping experience, simple and efficient operations and improvement through change. Through this programme we will be targeting a sustained improvement in like-for-like sales together with simpler and more efficient operations, and thus preparing Greggs for long-term profitable growth.

The Chief Executive's review provides greater detail on the strategic plan and the key targets and milestones that will be used to track progress.

The Board

Roger Whiteside took up the position of Chief Executive in February 2013, succeeding Ken McMeikan. Roger had been a member of our Board as a Non-Executive Director since 2008 and brings more than 30 years' experience in food and retailing to the role. The transition has gone well, enabling management to take stock of the position of the business resulting in a new strategic focus centred on the growing food-on-the-go market.

Allison Kirkby joined the Board as an independent Non-Executive Director in January 2013 and became Chair of the Audit Committee when I succeeded Derek Netherton as Chairman of the Board in May. I would like to record the Board's thanks to Derek for his leadership of Greggs over the last 11 years.

In January 2014 Helena Ganczakowski joined the Board and in the year ahead we will bid farewell to Julie Baddeley and Iain Ferguson, who will retire at the AGM in May having served for nine and five years respectively. The search for a new Non-Executive Director is well advanced and a further announcement will be made shortly.

Dividend

The business continues to generate strong cash returns with which we intend to fund capital investment and dividend payments to shareholders. In light of this, the Board recommends a maintained final dividend of 13.5 pence per share (2012: 13.5 pence), making a total dividend for the year of 19.5 pence (2012: 19.5 pence). In the short term, so long as cash flow allows, it is the Board's intention to maintain the dividend at or around this level with the intention of adopting, in the medium term, a progressive dividend policy with the dividend around two times covered by underlying earnings.

Prospects

Although economic activity across the UK is showing some signs of improvement, management is planning for continued pressure on footfall and consumer spending and an increasingly competitive food-on-the-go market. The 2013 strategic review has brought a new focus to the business as Greggs' position in the food-on-the-go market is developed and improvements to the quality of the shop estate and customer experience are delivered. The plan involves major changes and investment in the business over a number of years and, as previously announced, will incur some exceptional costs.

Greggs has a strong financial position, experienced management team and a loyal and committed workforce. I am confident that we are building the foundations for sustainable long-term profitable growth with the prospect of attractive returns for shareholders. It is encouraging to see that these changes are already beginning to deliver a stronger performance in the core business with an improving trend in like-for-like sales and strong returns from our shop refurbishment programme. As previously stated, the costs of this major programme of change are likely to constrain underlying profit growth over the next two years although the actions we are taking to restructure our cost base will position the business well as sales strengthen.

Our people and values

Inevitably change on this scale is having an impact on our people in the business. We have already announced proposals for organisational change which puts a number of roles at risk of redundancy. All of this is necessary for the long-term health of the business and I am confident that we are managing the impact on our people in line with Greggs' long-standing values of fairness, consideration and respect.

Ian Durant

Chairman

26 February 2014



Our strategy

Focusing on four key areas will deliver success in food-on-the-go

Measuring progress

Our strategic plan represents a major programme of change over a period of up to five years and we have mapped out a number of key targets and milestones that we will use to track progress:

- Restoring like-for-like sales growth;
- achieving target returns on our increased investment in shop refits;
- delivery of operational and supply chain efficiencies; and
- achieving the planned benefits from our investment in processes and systems.

Strategic pillar

1 Great tasting fresh food

We believe in 'Always Fresh. Always Tasty' freshly prepared food at great value for money. We believe we can leverage our bakery heritage to offer winning products in the food-on-the-go market.

2 A great shopping experience

Our priority is to improve the quality of our existing estate by accelerating our shop refit programme and reshaping our estate through relocations, openings and closures. We are increasing our investment in customer service by improving availability and extending opening hours.

3 Simple and efficient operations

Investment in our supply chain will be focused on realising the significant efficiency and capacity benefits to be gained within our existing network of bakeries, building on the work to develop centres of excellence seen in recent years. We continue to develop simpler and more effective support operations.

4 Improvement through change

The final phase of centralisation involves investing in the process and systems platform that will enable us to compete more effectively in the fast-moving food-on-the-go market.

Progress in the year

Action in 2013

- Improved pizza range launched.
- Sweet range re-developed for the food-on-the-go market.
- Product upgrades for key savoury lines.
- Market leading 'meal deals'.

 More detail: *Strategy in Action*
P8-P9

Action in 2013

- 216 shops refurbished, 120 of which adopted the new bakery food-on-the-go format.
- 70 per cent of new shops opened in locations away from the high street.
- Further development of franchise partnerships.
- Improved availability of freshly made sandwiches.
- Extended trading hours.

 More detail: *Strategy in Action*
P10-P11

Action in 2013

- Decided to focus on simpler and more efficient operations from existing supply chain.
- Cost saving initiatives delivered £5.3m of sustainable cost reduction.

 More detail: *Strategy in Action*
P12-P13

Action in 2013

- Commissioned an independent review of our business processes and systems which led to us announcing a five-year transformation programme in August 2013.
- Commenced identification of our technology and business partners.
- Defined governance and resource requirements for this critical programme.

 More detail: *Strategy in Action*
P14-15

The future

Plans for 2014

- We have further product developments and upgrades in the pipeline with many opportunities to continue to improve our product offer and develop our position in the food-on-the-go market.

 More detail: *Chief Executive's Report*
P16

Plans for 2014

- We will plan to refit around 200 shops in our bakery food-on-the-go format.
- In addition we will continue to reshape our estate by closing some shops, relocating others and opening between 60-80 away from the high street.
- We will launch Greggs Rewards, our digital loyalty scheme.

 More detail: *Chief Executive's Report*
P16

Plans for 2014

- We are consulting on proposals to make structural changes in two areas:
 - A proposal has been made to decommission the in-store bakeries across our estate, transferring supply to our regional bakery network.
 - We have also proposed a restructuring in support areas to improve our operational effectiveness.
- In addition we will target an additional £5m of savings through sustainable cost reduction.

 More detail: *Chief Executive's Report*
P16

Plans for 2014

- In 2014 we will deliver the first two elements of this programme:
 - A forecast-based manpower planning application will replace manually generated staff rotas.
 - A more transparent supplier management and purchasing process will be put in place to drive benefits of scale and better purchasing opportunities.

 More detail: *Chief Executive's Report*
P16

Great tasting fresh food

Our unique recipes, bakery expertise and sheer passion for our products all help to set Greggs apart and deliver simple, good quality, great-tasting food at affordable and competitive prices.

Our commitment to serving sandwiches made in our shops and freshly baked savouries ensures that we deliver an 'Always Fresh. Always Tasty' experience.

We own and run our own bakeries so we know, and can control, exactly what goes into our food; and because we supply our shops with fresh product each day we believe we have an advantage over those competitors who keep products on the shelves for longer.

Part of our revamped sweet bakery range – one of our fastest growing categories in 2013.



New freshly baked pizza – already one of our best sellers.



Progress in 2013

In 2013 we made changes to our product offering to reflect our new focus with encouraging early results. Our sweet range has been simplified and redeveloped to offer more contemporary products better suited to snacking or a treat to go with lunch. We have introduced a new pizza product that has quickly become one of our best-selling lines, popular at lunchtime but also perfect for afternoon and evening snacking. We have also improved the filling recipes in our best-selling Steak Bakes and Sausage and Bean Melts. Our new heat-to-eat sandwich range has helped to drive core growth in the sandwich category.

What we plan to do in 2014

We will relaunch our coffee with a new improved blend early in 2014. Other product categories will be relaunched during the year as we improve our range of fresh food, introducing new options and improving existing favourites.

New improved Steak Bake – driving growth in one of our iconic best sellers.



A great shopping experience

During the course of 2013 we simplified our approach to shop development, focusing on our new bakery food-on-the-go format.

The new shop features a contemporary interior that draws on Greggs' bakery heritage but is designed to meet the demands of the modern retail environment and busy food-on-the-go shoppers, who typically purchase food to be eaten at their convenience rather than to be taken home.

Important new features in these shops include the provision of seating for customers where appropriate, improved customer flow and more efficient queue management. The look and feel of this new format draws on our heritage in fresh bakery for the food-on-the-go market. A great shopping experience must also consider location and service offering. We believe in taking Greggs to where our customers are and fulfilling more of their needs by focusing on food-on-the-go at all times of the day.

Great coffee complements the introduction of seating in our new look shops.



Shop refits

We completed a record number of 216 shop refits – more than double our normal program.



Progress in 2013

We successfully completed a record number of 216 refurbishments, 120 of which adopted our new bakery food-on-the-go format. We opened 68 new shops (including 15 franchised units), 70 per cent of which are in locations away from high streets. We increased the number of units closed to 68 leaving total shop numbers unchanged with 1,671 shops trading at the year end. We also improved early sandwich availability and extended trading hours.

What we plan to do in 2014

Our priority for the next two to three years will be to continue to improve the quality of our existing estate and our service offering. In 2014 we will continue our accelerated refit programme, aiming to refurbish around 200 shops in our bakery food-on-the-go format.

In addition we will continue to reshape our estate, rebalancing it towards more sustainable long-term locations. This will involve closing some shops, relocating others and opening new ones away from the high street with help from our franchise partners in travel locations.

Overall we expect to have a similar number of shops at the end of 2014. We will continue our investment in improved customer service and will launch our digital loyalty scheme – Greggs Rewards. This will provide valuable information to enable us to enhance the customer experience further.

Investment in improved availability and extended trading hours has driven sales growth in the early morning and late afternoon.



Simple and efficient operations

As a retailer with an integrated supply chain we have an important advantage over many of our competitors, particularly in an economic climate where consumers are increasingly concerned about the provenance of the food that they eat.

Alongside our focus on improving like-for-like sales from our existing estate of shops we will concentrate on driving simpler and more efficient operations from our current supply chain. In recent times we have made good progress in improving supply chain efficiency and have further opportunities to improve in the years ahead. We will also improve our operational effectiveness in support areas in order to maximise our scope for investment in front line customer service.

Safety Health and Environment (SHE) Achievement

Our North Lakes Bakery Team celebrated 1000 days without a reportable incident. When you consider that this includes the relocation of the facility from the previous Penrith site and changes to equipment and process it shows the importance we place on safety. Everyone on the site knows our SHE goals and their part in helping to achieve these.



99.6 per cent of our shop deliveries were delivered on time and 97.8 per cent in full during the last half of 2013.



Progress in 2013

Following our strategic review we determined that we should focus on making our existing supply chain operations simpler and more efficient. As a consequence we decided not to proceed with the building of a frozen food factory in the East Midlands which had been under consideration.

We continued to make good progress against our cost saving targets and implemented an additional £5.3 million of savings in the year through procurement, logistics and efficiency initiatives.

What we plan to do in 2014

In 2014 we intend to build on the success of our cost saving initiatives, targeting a further £5 million of reductions.

Investment in our supply chain will be focused on realising the significant efficiency and capacity benefits to be gained within our existing network of bakeries, building on the work to develop centres of excellence seen in recent years. As a consequence a proposal has been made to decommission the in-store bakeries across our estate. Over the next 12 to 18 months it is proposed that the remaining shops that are supplied by in-store bakeries will be transferred to our regional bakery network.

We are also proposing to restructure our management and support teams across the country in order to improve our operational effectiveness. This, and the proposed changes in our supply chain, may result in a number of roles becoming redundant. We will manage this process in line with our longstanding values, treating everyone with fairness, consideration and respect.

BRC Accreditation

The quality of our facilities was recognised by the award of British Retail Consortium accreditation to a number of our bakeries and production facilities during the year.



Improvement through change

Greggs has made significant progress in the past five years towards centralising the operation of the business.

We have moved from a regionally structured business to a centralised model.

The final phase of centralisation involves investing in the process and systems platform that will enable us to compete more effectively in the fast-moving food-on-the-go market.

Costs and Benefits

- £25 million will be invested over five years;
- £38 million direct benefits expected; and
- £6 million per annum net benefit as we complete the programme.



The final phase of centralisation involves investing in key processes and systems.



Progress in 2013

We commissioned an independent review of our business processes and systems which identified a range of opportunities for improvement, and led to us announcing a five-year transformation programme in August 2013. In the second half of the year we defined the governance and resource requirements and commenced identification of our technology and business partners.

What we plan to do in 2014

In 2014 we will deliver the first two elements of this programme. A forecast-based manpower planning application will replace manually generated staff rotas, and more transparent supplier management and purchasing processes will be put into place to drive benefits of scale and better purchasing opportunities.

Practical examples

- Integrated ERP-based stock system to replace legacy of autonomous divisional manufacturing and warehousing systems; and
- new ordering processes to ensure better product availability and reduced waste.



2013 was a year of transition for Greggs as our new strategic focus centred on the growing food-on-the-go market.



Roger Whiteside Chief Executive

Market conditions remained challenging with constrained disposable incomes, increased competition and periods of extreme weather all being significant factors. As a consequence we experienced continued negative like-for-like sales, particularly in the first half, resulting in reduced profits.

Financial performance

Total sales increased to £762.4 million, a rise of 3.8 per cent as a result of the sales contribution from new shops. Like-for-like sales were down 0.8 per cent for the year as a whole, although there was an improving trend in the latter part of the year resulting in like-for-like growth of 1.2 per cent in the second half and 2.6 per cent in the fourth quarter.

Operating profit before exceptional items was down 19.1 per cent at £41.5 million and pre-tax profit before exceptional items was down by 18.9 per cent to £41.3 million. In addition we took an exceptional charge of £8.1 million reflecting expected one-off costs resulting from the strategic decisions announced with our interim results in August. Our Finance Director, Richard Hutton, comments on financial performance in more detail in the Financial Review.

Market background: Growing food-on-the-go market

While there are signs of recovery in the UK economy, disposable incomes remained under pressure for the year impacting retail demand and footfall in shopping locations. General market conditions were not helped by two periods of extreme weather: snow in quarter one and a heat wave in quarter three.

Nevertheless our strategic review confirmed that the food-on-the-go market is still growing and attracting expansion by our competitors, particularly convenience supermarkets, coffee shops and fast food operators. Whilst Greggs has defended its position as the leading retail bakery business it has underperformed the food-on-the-go market as new entrants and existing competitors have rapidly expanded shop numbers and better met customer demands.

The Greggs brand occupies a strong position in the food-on-the-go market with a reputation for good value, fresh and tasty products and great customer service. We estimate Greggs ranks number one in the market for savoury snacks and breakfast and number two for sandwiches. A recent national survey of customer service ranked Greggs the 10th best brand in the UK and significantly ahead of all but one of our specialist food-on-the-go competitors (source: UKCSI).

Greggs appeals to a broad customer base and, with signs of easing pressure on consumer disposable incomes appearing towards the end of the year, this should support continued growth in the market for food-on-the-go. However, we are conscious that we are likely to continue to see increased competition and the trend towards online shopping will maintain pressure on footfall in many shopping locations.

Strategic direction: Focus on food-on-the-go

Our new strategic plan, announced in August 2013, focuses on growing like-for-like sales by improving the quality of our existing estate and making our operation simpler and more efficient. The plan has four key pillars:

1. Great tasting fresh food.
2. A great shopping experience.
3. Simple and efficient operations.
4. Improvement through change.

These pillars are all supported by our approach to keeping our people, communities and values at the heart of our business.

Our strategic plan represents a major programme of change over a period of up to five years and we have mapped out a number of key targets and milestones that we will use to track progress:

- Restoring like-for-like sales growth;
- achieving targeted returns on our increased investment in shop refits;
- delivery of operational and supply chain efficiencies; and
- achieving the planned benefits from our investment in processes and systems.

As part of the review we made a number of decisions to stop work on other areas of development which are no longer core to our strategy. The key decisions were: not to extend our wholesale 'bake at home' business with Iceland Foods Ltd to further retailers; not to proceed with the building of a second frozen manufacturing facility in the East Midlands; to stop the development of the Greggs moment coffee shop format, instead focusing on growing coffee sales in our existing Greggs-branded estate; and not to develop an international business in the near future.

Delivering our plans

1. Great tasting fresh food

Greggs is a much-loved and trusted brand and we can leverage our heritage in fresh bakery to compete successfully in the food-on-the-go market. The Greggs product offer is differentiated by the way that it is freshly prepared each day in our shops and so delivers an 'Always Fresh. Always Tasty.' experience that others find hard to match.

Changes to product range

We made a number of product changes last year that are already helping to drive improved sales. Our sweet range was simplified and redeveloped to offer new products better suited to snacking or a treat to go with lunch. We introduced a new pizza product that has quickly become one of our fastest selling lines. We launched a range of new 'heat to eat' sandwiches in the autumn which has driven growth in that category. In savouries we have improved the filling in our best-selling lines such as Steak Bakes, Sausage and Bean Melt and Chicken Bake, all of which have sold well as a result.

Value

Outstanding value for money is a key attribute of the Greggs proposition and we have continued to focus on market-leading promotions which drive growth and average transaction values. We maintained our £2 breakfast meal deal throughout the year, again driving double-digit growth as this meal occasion continues to grow in importance to food-on-the-go customers. In sandwiches we sharpened our deal to offer a wider range of sandwiches and a drink for just £2.75 which greatly increased the level of customer participation. Impulse offers to take to the home or office, such as our '4 for the price of 3' deal on sausage rolls, also sold very well.

2014 product initiatives

We have a programme of activity planned for 2014 to make further advances in our product quality and value offer. As an example we are about to launch our new coffee campaign which includes a new blend which has tested well with consumers and will be promoted in our £2 breakfast meal deal. It will also feature as part of a new £2 deal with any sweet bakery item and a £3 deal with a wide range of sandwiches.

New Commercial Director

We have a strong leadership team in Greggs but one area we have been seeking to strengthen further is trading and category management. I am delighted to confirm that we have appointed Malcolm Copland as our new Commercial Director to lead our teams in this area. Malcolm joins us from Marks & Spencer where he spent 23 years successfully developing his career in the food business specialising in category management.

2. A great shopping experience

As well as improvements to our product offer we have started to make changes to our service levels in shops to meet better the needs of food-on-the-go customers. We have invested in increased labour hours to improve the availability of our freshly made sandwiches in the morning, extended afternoon trading hours and improved the range of fresh products available on a Sunday, all of which has helped to drive sales.

'Bakery food-on-the-go' format

We changed the focus of our shop investment programme to slow down new shop expansion and accelerate shop closures in poor performing locations. At the same time we simplified our shop format development to focus on one 'bakery food-on-the-go' format and doubled the annual rate of shop refits.

Estate changes and refurbishments

We opened 68 new shops (including 15 franchised units) in the year and closed 68, leaving total shop numbers unchanged with 1,671 shops trading at 28 December 2013. 70 per cent of our new shops were opened in locations away from high streets such as retail and industrial parks, motorway service stations and travel hubs. We now have 25 franchised shops which are run in conjunction with Moto Hospitality Limited and Euro Garages Limited and continue to see this model as offering opportunities for further growth away from high street locations.

We completed 216 shop refurbishments during the year combining the best features of our previously separate 'Food-on-the-go' and 'Local Bakery' concepts into the 'bakery food-on-the-go' format. The performance of these refurbished shops has been encouraging with high single-digit improvements in like-for-like sales.

In 2014 we plan to refit around 200 shops in our 'bakery food-on-the-go' format. We expect to open 60 to 80 new shops, including further development of our franchise partnerships, and close a similar number of shops in the year. Our shop opening and closure programme will continue to improve the overall quality and performance of our estate whilst rebalancing it towards more sustainable long-term locations. With online shopping set to change customer patterns over the long term, we expect to reduce our exposure to locations where footfall is declining and increase our presence in travel, leisure and work-centred catchments. While the focus of the business for the next few years will be on growing like-for-like sales we continue to believe in the opportunity for increased shop numbers in the longer term.

Greggs loyalty scheme

During 2013 we have been developing our Greggs digital reward scheme. 'Greggs Rewards' has undergone extensive testing and officially launches today on the App Store for iPhones and on Google Play for Android handsets. For customers it's a faster way to pay as well as providing benefits and rewards. For Greggs it will provide valuable information to enable us to enhance the customer experience further.

3. Simple and efficient operations

Greggs is unusual in the food retail market in being predominantly vertically integrated, owning its own manufacturing and logistics operation. This model provides advantages in controlling what goes into the food we sell and our speed to market with product development but carries risk in operational gearing.

Driving supply chain efficiencies

Alongside our focus on driving like-for-like sales from our existing estate of shops, we will concentrate on driving simpler and more efficient operations from our supply chain. We have made good progress in improving supply chain efficiency over several years and have further opportunities to improve in the years ahead. For example, we announced a new step in this direction earlier this year with proposals to consolidate the remaining 79 in-store bakeries into our regional bakery network over the next 12 to 18 months.

The general direction of change in our supply chain is towards further consolidation, creating centres of excellence for key product types and developing more effective logistics solutions. Our aim is to improve product quality and consistency together with providing a more responsive, cost effective supply service to our shops.

More effective support operations

As well as improving our supply chain operation we need to improve our operational effectiveness in support areas in order to maximise our scope for investment in front line customer service. As a result we recently announced a proposal to restructure our management and support teams across the country and this may result in a number of roles becoming redundant.

We have entered into consultation with trade union and employee representatives of those affected to refine and develop both the in-store bakery and support team restructuring proposals and expect to complete this in the near future. These combined proposals may result in a total of around 410 roles becoming redundant. Clearly these proposed changes have a significant impact on our people and we are determined to manage the process in line with Greggs' long-standing values – treating everyone with fairness, consideration and respect.

As previously announced, the proposed changes to in-store bakeries and support operations are expected to result in one-off redundancy costs and asset impairment charges amounting to £9.0 million in 2014, of which £8.0 million would be a cash cost. We anticipate that the ongoing benefit of the cost reduction would be £6.0 million per year from mid-2015 and that, excluding the one-off costs, there would be a benefit in 2014 of £2.0 million.

4. Improvement through change

Investment in systems

In August 2013 we announced a five-year change programme whereby we will invest in process and systems platforms that will enable us to compete more effectively in the fast-moving food-on-the-go market. We plan to invest £25 million over the next five years in process improvement and systems replacement and expect to deliver £38 million of related business benefits over the same period. In the next two years we expect that the costs of this programme will impact profits by around £2 million annually. The net annual benefit to the business at the conclusion of the programme is expected to be £6 million.

In 2014 we will deliver the first two elements of this programme, relating to workforce management and supplier relationship management.

Keeping our people, communities and values at the heart of our business

2013 has been a challenging year for Greggs and the scale of change involved in our new strategic plan will inevitably have had an impact on our people. It is at times like these that our values as a business are put to the test and I am immensely proud of our teams for the professionalism and fortitude they have displayed as we move forward with our plan.

While business pressures have been unrelenting our people have remained committed to making a difference to our local communities. This is evident through their support of both the Greggs Foundation and national causes. A significant proportion of the Foundation's impact is achieved through the generosity of our people and customers – in 2013 around £350,000 was raised in our shops and our bakeries for the Foundation, including £138,000 during the 'Foundation Month' appeal. Fundraising efforts such as this, combined with our annual donation (1 per cent of our pre-tax profits) enabled the Foundation to distribute a total of £1.3 million in support of a wide range of local community initiatives. This included the Greggs Breakfast Club scheme, with over 255 clubs serving over two million free, wholesome breakfasts every year.

For the third year running we raised over £1 million for the BBC Children in Need Appeal through the extraordinary efforts of Greggs people up and down the country. This would not have been possible without the continued generosity of our customers who also helped Greggs to raise over £200,000 for the Royal British Legion's Poppy Appeal and over £100,000 for the Philippines Typhoon Appeal.

Additional ways in which we help to make a difference to local communities include the co-ordination and implementation of employability programmes. Targeting young people and marginalised groups, we helped over 250 individuals with employability skills in 2013, resulting in over 70 being offered paid employment. We have also continued our support for the Business in the Community's 'Business Connectors' secondment scheme and are proud to have five colleagues currently on secondment in this capacity.

We continued to make good progress in the remaining three key areas of our social responsibility agenda: creating a great place for our people to work, food our customers can trust and reducing our impact on the world around us. 2013 highlights include continuing to share 10 per cent of profits with our people, donating 566 volunteer days and providing 87 per cent of our management population with career development training. We have successfully increased sales of 'under 400 calorie' products by 20 per cent, introduced calorie information at the point of purchase for our national range and reduced salt in our savoury production process by 30 per cent. We have also minimised our carbon footprint by installing photovoltaic arrays on the roofs of ten of our bakeries.

We have achieved recognition across the business at a number of awards ceremonies during the year. These include being named Bakery Sandwich Retailer and Sandwich Designer of the Year at the British Sandwich Industry Awards, Retail Innovator at the Baking Industry Awards, Talent Attraction and Management Company of the Year at the North East CIPD Awards and winning a gold award at the Digital Impact Awards for best use of digital in the retail sector.

Outlook for 2014

2014 will be a year of further change for Greggs as we move forward with our new strategy to focus on the food-on-the-go market. Market conditions are expected to remain challenging but I am encouraged by the improvement seen in our like-for-like sales in recent months. Like-for-like sales in the first eight weeks to 22 February 2014 grew by 2.1 per cent, although this includes comparison with snow-impacted sales in January 2013.

Cost inflation has shown signs of easing recently and this is welcome but, as we have previously indicated, the costs of investing in our change programme are likely to constrain profit growth over the next two years. However, the proposed organisational changes recently announced, together with the benefits of the process and systems investment programme, will help to protect profits in the event of continued like-for-like sales pressure and provide the platform for profitable growth when like-for-like sales strengthen.

Roger Whiteside
Chief Executive
26 February 2014

The 2013 financial performance reflects tough trading conditions and one-off costs resulting from our strategic review.



Richard Hutton Finance Director

The early signs of our change in strategic focus are encouraging and we are making good progress with our efficiency programmes. The strength of our cash generation has supported continued investment in our core estate and maintenance of the dividend.

Sales

Total Group sales for the 52 weeks ended 28 December 2013 were £762.4 million (2012: £734.5 million), an increase of 3.8 per cent. Like-for-like sales were down by 0.8 per cent over the year as a whole with sales growth primarily being driven by the contribution from new shops.

Profit before exceptional items

Operating profit before exceptional items was £41.5 million (2012: £51.3 million), a 19.1 per cent reduction. The result reflects the impact of reduced like-for-like sales in the core Greggs estate in the first half of the year and the initial costs of our programme of change designed to make us compete more effectively in the food-on-the-go market.

After net finance charges of £0.2 million (2012: £0.4 million) pre-tax profit before exceptional items was £41.3 million (2012: £50.9 million), an 18.9 per cent reduction. The impact of exceptional costs in the year is discussed below.

Operating margin

Operating margin before exceptional items was 5.4 per cent (2012: 7.0 per cent).

The overall gross margin for the business reduced to 59.9 per cent (2012: 60.9 per cent) reflecting the operational gearing in the business and increased customer participation in promotional deals. Input cost inflation remained a challenge throughout the year although the rate of food inflation eased in the fourth quarter.

In a year when like-for-like sales decline put pressure on cost recovery in our core estate, it was important that we continued to make good progress against our cost saving targets. We implemented an additional £5.3 million worth of savings in the year through procurement, logistics and efficiency initiatives. We expect to continue this level of activity in the year ahead and, as previously announced, are now consulting on proposals to make structural changes designed to improve the efficiency of our existing bakery network and improve our operational effectiveness in support areas. We will also be commencing the investment programme in processes and systems replacement that will ultimately deliver significant benefits.

Overall shop numbers were maintained in 2013 but we have increased the rate at which we are closing and relocating shops in order to improve the quality and performance of our core estate and ensure that our locations match customers' changing needs. In 2013 we closed 68 shops, relocating 17 and opening a further 51 in new catchment areas. Of these new catchment areas 15 were developed with franchise partners. In the year we made a charge of £0.9 million against a further 37 shops where performance is such that the assets are considered to be impaired. Further costs were incurred following our strategic review as a result of the decision to close nine loss-making shops and these are included as 'exceptional items' below. In 2013 we recognised gains on the disposal of freehold properties totalling £1.3 million (2012: £0.8 million).

In 2013 we adopted the amendments to IAS 19: 'Employee Benefits'. This has necessitated a restatement of the 2012 costs resulting in an additional £1.0 million charge before taxation in that year. The restated 2012 pre-tax profit before exceptional items on this basis is £50.9 million.

Exceptional items

The strategic changes announced with our interim results in August 2013 have resulted in an exceptional charge in the year of £8.1 million. This relates to the closure of nine loss-making shops, restructuring of the 'Greggs moment' coffee shops, plans to re-shape our estate and changes to our plans for supply chain development. The total charge comprises cash costs incurred in the year of £0.1 million, asset impairment and write-off charges of £4.9 million and a provision for onerous lease liabilities of £3.1 million. These charges involve judgements as to the level of impairment of assets and the cost of exiting onerous leases. If the future cost of these changes proves to be materially different from the current assessment then any subsequent impacts will also be shown as exceptional items. By refocusing our strategy on the core estate we are seeing the early signs of improved like-for-like sales and good returns on capital.

The exceptional gain of £1.4 million in 2012 reflected the successful disposal of a freehold property against which an exceptional charge had previously been made. Pre-tax profit in 2013 including exceptional items was £33.2 million (2012: £52.4 million).

Taxation

Excluding the impact of exceptional items the Group's underlying tax charge was 25.0 per cent (2012: 24.0 per cent). The overall tax rate for the year including exceptional items was 27.0 per cent (2012: 24.0 per cent). The effective rate reflected the lowering of the headline rate of corporation tax from 24 per cent to 23 per cent in April 2013 and the revaluation of deferred tax liabilities to 21 and 20 per cent following enactment of further Corporation Tax reductions in the year. The reduction in Company profits has increased the significance of non-qualifying expenditure in our tax computations, adding 1.0 percentage point to the effective rate. We now expect the effective rate excluding exceptional items for 2014 to be 25.0 per cent, falling to 23.5 per cent by 2016.

Earnings per share

Diluted earnings per share before exceptional items were 30.6 pence (2012: 38.3 pence), a reduction of 20.1 per cent. Basic earnings per share before exceptional items were 30.8 pence (2012: 38.9 pence). Earnings per share including exceptional items were 23.9 pence diluted (2012: 39.4 pence) and 24.1 pence basic (2012: 40.0 pence).

Dividend

The Board recommends a final dividend of 13.5 pence per share (2012: 13.5 pence). Together with the interim dividend of 6.0 pence (2012: 6.0 pence), paid in October 2013, this makes a total for the year of 19.5 pence (2012: 19.5 pence). This is covered 1.6 times by diluted earnings per share before exceptional items. The dividend for the year is covered 1.7 times by free cash flow.

Subject to the approval of shareholders at the Annual General Meeting, the final dividend will be paid on 9 May 2014 to shareholders on the register on 11 April 2014.

Capital expenditure

We invested £47.6 million (2012: £46.9 million) of capital expenditure in the business during 2013. This included the opening of 53 new shops (excluding franchises) and 216 shop refurbishments. Investment in our supply chain was focused on efficiency activity and the replacement of end-of-life assets. Depreciation and amortisation (excluding impairment charges) in the year was £33.4 million (2012: £32.4 million).

We plan capital expenditure of around £50 million in 2014. As in 2013 we will prioritise investment in our core estate and plan to refurbish around 200 shops in 2014. We expect to open 60 to 80 new shops and close a similar number, maintaining the overall estate at the same size. Investment in processes and systems will increase as we progress the first phase of our transformation plan.

Return on capital

We manage return on capital against predetermined targets and monitor performance through our Investment Board, where all capital expenditure is subject to rigorous appraisal before and after it is made. For investments in new shops and refurbishments we target a cash return on invested capital of 22.5 per cent over an average investment cycle of seven years. Other investments are appraised using discounted cash flow analysis.

Excluding exceptional costs, we delivered an overall return on capital employed (ROCE) for 2013 of 16.4 per cent (2012: 21.3 per cent excluding exceptional credit). The fall in ROCE reflects the decline in the business' operating profit in the year, which was significantly impacted by like-for-like sales performance. Underlying investment returns on our refurbishment expenditure were good, encouraging us to continue with the accelerated programme in 2014. The performance from investments in new shops was mixed, resulting in greater emphasis in our 2014 plans on relocating shops to better locations and increasing our presence in travel, leisure and work-related catchments.

Cash flow and balance sheet

Group EBITDA was £77.0 million (2012: £84.3 million). Improvements were made in working capital management and at the end of the year the Group had net cash and cash equivalents of £21.6 million (2012: £19.4 million) plus a short-term cash deposit of £3.0 million (2012: £nil). This is an appropriate level given the leverage inherent in the Group's predominantly leasehold shop estate, the ongoing working capital position and the seasonality of cash flows across the financial year. Investment plans for the year ahead will be financed from cash generation and existing facilities.

Richard Hutton
Finance Director
26 February 2014

Key financial performance indicators

We use eight key financial performance indicators (KPIs) to monitor the performance of the Group against our strategy. These KPIs and how we performed against them are detailed below:

Total sales growth:

3.8%

2013	3.8%
2012	4.8%
2011	5.8%
2010	2.1%
2009	3.3%

The percentage year-on-year change in total sales for the Group, adjusted for the impact of a 53 week year in 2009. In 2013 total sales grew by 3.8 per cent (2012: 4.8 per cent) to £762 million (2012: £735 million). This primarily reflected the additional sales contribution from new shops.

Adjusted operating profit:

£41.5m

2013	£41.5m
2012	£51.3m
2011	£53.0m
2010	£52.4m
2009	£48.4m

Reflects the performance of the Group before financing and taxation impacts and excludes exceptional items arising in the year. Adjusted operating profit for the year decreased by 19.1 per cent to £41.5 million (2012: £51.3 million). This reflects the impact of reduced like-for-like sales in the first half of the year and the initial costs of our programme of change designed to make us compete more effectively in the food-on-the-go market.

Like-for-like sales growth:

-0.8%

-0.8%	2013	
-2.7%	2012	
	2011	1.4%
	2010	0.2%
	2009	0.8%

Compares year-on-year cash sales in our 'core' shops, i.e. it is not distorted by shop openings and closures. Like-for-like sales growth includes selling price inflation and excludes VAT. Like-for-like sales fell by 0.8 per cent in 2013 (2012: decrease of 2.7 per cent). There was an improving trend in the latter part of the year resulting in like-for-like growth of 1.2 per cent in the second half and 2.6 per cent in the fourth quarter.

Operating margin:

5.4%

2013	5.4%
2012	7.0%
2011	7.6%
2010	7.9%
2009	7.4%

Shows the adjusted operating profit of the Group as a percentage of turnover. Operating margin for the year has reduced to 5.4 per cent (2012: 7.0 per cent).

Adjusted diluted earnings per share (pence):

30.6p

2013	30.6p
2012	38.3p
2011	38.8p
2010	37.3p
2009	34.0p

Calculated by dividing profit attributable to shareholders before exceptional items by the average number of dilutive outstanding shares. Diluted earnings per share decreased by 20.1 per cent to 30.6p (2012: 38.3p).

Capital expenditure:

£47.6m

2013	£47.6m
2012	£46.9m
2011	£59.1m
2010	£45.6m
2009	£30.3m

The total amount incurred in the year on investment in fixed assets. Capital expenditure in 2013 was £47.6 million (2012: £46.9 million). £39.5 million of this was invested in existing operations whilst the balance of £8.1 million was incurred in growing the shop estate.

EBITDA:

£77.0m

2013	£77.0m
2012	£84.3m
2011	£83.9m
2010	£81.5m
2009	£75.6m

Earnings (excluding exceptional items) before interest, tax, depreciation and amortisation. EBITDA in 2013 was £77.0 million (2012: £84.3 million).

Return on capital employed (ROCE):

16.4%

2013	16.4%
2012	21.3%
2011	24.4%
2010	25.9%
2009	25.9%

Calculated by dividing profit before tax before exceptional items by the average total assets less current liabilities for the year. The year-on-year reduction in ROCE reflects the lower overall operating profits in 2013.

Principal risks and uncertainties

Corporate governance guidance requires the disclosure of principal risks and uncertainties. A principal risk is defined as “a risk or combination of risks which can seriously affect the performance, future prospects or reputation of the entity. These should include those risks that affect the viability of an entity.”

Greggs is exposed to a wider range of risks than those listed here. However, these are considered to be the most important to the future development, performance or position of the business. The risks listed are not set out in any particular order, although they are grouped into four common themes.

Business strategy and change

Area of principal risk or uncertainty

Mitigating actions and controls

Change programme

The business has embarked on a long-term project to improve operational efficiency, requiring significant capital investment. Progress may not be in line with expectations, or budgets may not be met.

The project delivery is overseen by a steering group, providing robust governance. Regular updates are provided to the Board, to monitor progress against clearly defined timelines and financial forecasts.

Loyalty scheme and information security

Greggs plans to launch its first loyalty scheme during 2014. This will provide the business with significant quantities of customer data, which need to be handled in a secure manner. More general ‘cyber risk’ issues are also an area of risk to the business.

A cross functional working group meets to determine priorities for improving the business’s approach to information security. This has focused principally on issues related to the loyalty scheme in the first instance, to ensure a robust approach before launch.

Structural changes

The business is proposing some structural changes as part of its new strategy, to improve our supply chain and reduce overhead costs. This may impact on our ability to deliver to our customers, and could adversely affect staff morale. Expected financial benefits may not ultimately accrue.

A full consultation exercise will be undertaken with affected colleagues to refine proposals. Costs and benefits have been carefully calculated, and will be closely monitored going forward.

Brand and reputation

Area of principal risk or uncertainty

Mitigating actions and controls

Product quality and safety

As a food-on-the-go retailer and manufacturer, excellent food safety is clearly imperative to maintain consumer confidence in our products. We need to ensure that our ingredients are in line with specification and are used correctly.

Procedures are in place in our bakeries, logistics operations and shops to ensure that food safety is maintained. These procedures are supported by robust audit processes, both internally and by regulatory bodies.

Food scare

Greggs may suffer from a loss of customer confidence due to a major food scare beyond its control.

The majority of products for sale in our shops have been manufactured by our staff in our bakeries. Checks are carried out to confirm the integrity of our ingredients as part of routine processes.

Consumer trends

Greggs may lose customer share due to changing customer trends reducing the popularity of our products.

Regular research is conducted into consumer tastes and we have a continuous pipeline of new product development.

Labelling regulations

New food labelling regulations come into force later this year, requiring a full ingredient disclosure for all bakery wrapped products. This presents Greggs with challenges due to local variations in product make-up, and the need to develop new products quickly.

Work to improve the efficiency of our new product development process is ongoing. We are also standardising product specifications throughout our bakeries.

Supply chain

Area of principal risk or uncertainty

Mitigating actions and controls

Single source suppliers

Reliance on one supplier for a key ingredient exposes Greggs to a risk of interruption to supply and hence an inability to produce one or more lines.

Wherever possible, a secondary source of supply has been identified, and is periodically tested.

Loss of production

Since the majority of our products are made in our own bakeries, any disruption to supply would have a significant impact on our customers.

Contingency plans are in place for our supply sites, and these are regularly tested. Annual site inspections by our property insurers help us to ensure that our facilities are protected against loss. Alternative sources of supply have been identified for key products, and regular testing ensures an ability to provide product to a suitable quality within the required timeframe.

Commodity prices

Changes in commodity prices, utilities or other raw material costs could adversely impact our margins and consequently our financial performance or customer value.

Where appropriate, our purchasing team fixes prices with suppliers over a period of time, to obtain best value and avoid price volatility.

Finance/regulatory

Area of principal risk or uncertainty

Mitigating actions and controls

Economic outlook/market pressures

Continued economic uncertainty, combined with a decline in high street footfall, result in a challenging trading environment for the business.

Our products are competitively priced, to offer the consumer value for money. The decision to focus capital expenditure on refitting the existing estate rather than opening new shops should result in a more pleasant shopping experience for our customers. Where new shops have opened in 2013, 70 per cent have been in locations away from high streets, to reflect the changes in shopping habits.

Regulatory issues

Changes in the regulatory framework, such as new taxation proposals, amended food safety requirements and so on, could increase the Company's costs and hence reduce our competitiveness.

Management monitor changes in regulation and legislation, take advice as appropriate, and use our membership of the CBI, British Retail Consortium and other organisations to lobby the relevant bodies.

Additional risks and uncertainties, not presently known to management, or deemed to be less material currently, may also have an adverse effect on the business.

Our risk management approach

Greggs' approach to risk management has a number of components, which combine to ensure that significant risks are identified, evaluated, recorded and managed.

Board of Directors

The Board has ultimate accountability for ensuring that risks are managed appropriately, although it delegates the detailed implementation of risk processes and mitigating actions to management. Significant risks (i.e. those which could prevent the business from achieving its objectives were they to occur) are considered at each Board meeting, with the associated controls being monitored and reviewed. The Board also debates whether any new or emerging risks require assessment by management.

Insurance cover provides a means of mitigation for a number of risks facing the business. On an annual basis, the Board considers the cover in place, and determines whether or not it deems it to be appropriate.

Through regular reporting, the Board is kept apprised of any issues or business changes which may impact on the Company's risk profile. The Audit Committee reviews risk management procedures at least annually, and reports its findings through to the Board.

Operating Board

The Operating Board supports the Chief Executive in implementing the Board's decisions, and comprises the leaders of each of the organisation's main functions: Finance, Retail, Trading, Supply Chain, People, Corporate Affairs and Business Planning & Change. Responsibility for the day to day management of risk sits with this group. All key strategic risks identified by the business are owned by an Operating Board member.

Risk Committee

The Risk Committee is a management committee which meets at least four times each year to discuss risks in greater detail than can be done during Operating Board meetings. It comprises the Chief Executive, the Operating Board, and a number of functional heads. Its responsibilities include analysing, assessing, measuring and understanding the Company's risk exposure, as well as developing an appropriate risk management strategy for the business. Significant areas of concern identified by this body will be reported to the main Board, generally through the Audit Committee. Although the Group's remit extends to all risks faced by the Company, it will focus on key strategic risks and their associated controls.

Whistle-blowing

All staff have an opportunity to raise matters of concern with senior management through our whistle-blowing policy, which is advertised across the business. Any matters raised are treated in confidence, and an independent review will be undertaken where this is appropriate. The Chair of the Audit Committee is the designated first point of contact for any concerns which cannot be addressed through normal management processes.

Business Assurance

Greggs' internal audit team has now been combined with risk management capacity to form a Business Assurance function. This will help to embed risk management across the business, whilst providing a more joined-up approach to assurance. The scope of internal audit work covers the entire business operation, including shops and bakeries as well as central corporate functions. Findings are reported to management, and to the Audit Committee, whose meetings are all attended by the Head of Business Assurance. The Business Assurance team has authority to access all areas of the business, all senior managers, and the Chair of the Audit Committee as required.

At Greggs we are committed to keeping people, communities and values at the heart of our business.

Greggs is a Company that its customers, people, local communities and shareholders can rely on to operate its business in a socially and environmentally responsible way.

We recognise that almost everything we do impacts in some way on our local communities and the wider environment, and we focus our commitment to social responsibility in four key areas:

- Making a difference to our local communities;
- A great place to work;
- Food our customers can trust; and
- Reducing our impact on the world around us.

Social responsibility has been, and will continue to be, at the heart of our strategy to grow Greggs profitably and responsibly. It has helped shape our values (to be enthusiastic and supportive in all that we do; open, honest and appreciative, treating everyone with fairness, consideration and respect) that are at the core of our business.

How we manage social responsibility

We take our social responsibilities very seriously, with the Chief Executive responsible for delivery, and the Board ultimately accountable for performance.

Delivery is managed through a Steering Group, chaired by the Company Secretary, comprising the Chief Executive and four members of the Operating Board. An Operating Board Director champions each of the four key areas of focus for Greggs, ensuring top level commitment across the business.

This commitment to social responsibility can be traced back to the establishment of the Greggs Foundation in 1987 by Ian Gregg, and the Company continues to be a strong advocate of the positive role that business should play in the local and national community.

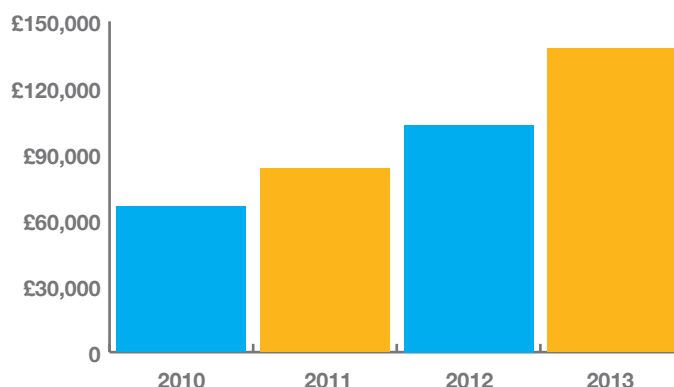
Making a difference to our local communities

Whilst we do not have a formal community policy, we do have a long history of supporting the communities which have helped us to grow as a business over the years. This ethos is a key part of our culture and as a successful business we feel a particular responsibility to support those less fortunate than ourselves. The success of our Breakfast Clubs and volunteering programmes as well as our employability work, is testament to the effectiveness of our achievements in this area.

We are proud that we continue to donate at least 1 per cent of our pre-tax profits to the Greggs Foundation. This year we again donated £650,000 which, when combined with other fundraising and investment income, enabled the Foundation to make grants of over £1.3 million during 2013. This included grants of over £800,000 to community organisations and £200,000 in hardship grants.

A significant proportion of the Foundation's impact is achieved through the generosity of our people and customers. In 2013 around £350,000 was raised in our shops and bakeries for the Foundation, including £138,000 during the 'Foundation Month' appeal.

Foundation appeal funds raised



Additionally our people and customers fundraise for a number of external causes and in 2013 £1.3 million was raised in the final three months of the year for:

- Children in Need – we are delighted that in 2013 we raised an amazing £1 million, bringing the total raised to over £5 million in the last six years;
- Poppy Appeal – we supported the Royal British Legion Poppy Appeal for a second year, raising around £200,000; and
- Philippines Typhoon Appeal – through the continued generosity of our customers we were able to raise £109,000 for this appeal.

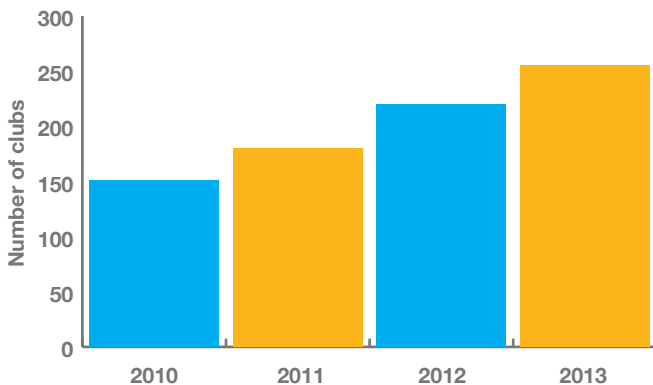
Children in Need



2006	£70,000
2007	£175,000
2008	£360,000
2009	£739,000
2010	£904,850
2011	£1,001,000
2012	£1,050,000
2013	£1,006,000

A long-standing part of our community strategy has been our commitment to school breakfast clubs. Under the Greggs Foundation's breakfast club model, over two million free wholesome breakfasts are supplied to children each year in 255 primary schools. Sixty-six of the clubs have opened with funding support from partner organisations who share our aim of improving learning opportunities for children in disadvantaged areas. For a list of partner organisations please visit www.greggsfoundation.org.uk.

Breakfast clubs



Research shows that breakfast clubs can improve attendance, punctuality and behaviour amongst pupils, as well as increasing learning outcomes. Breakfast clubs have also been shown to strengthen the school/parent relationship and increase socialising opportunities. The clubs provide over 700 parents and carers with volunteering opportunities that can help them to re-enter the world of work.

For a number of years now we have been directly involved in initiatives that promote the employability of young people and those from marginalised groups. In 2013 we helped more than 250 people to develop their employability skills, resulting in over 70 being offered paid employment:

- We have worked with ten prisons and five probation trusts, providing interview/assessment experience and helping to raise the career aspirations of offenders. Over 100 individuals have attended training sessions and we provided work experience to a total of 25 individuals who were 'Released on Temporary Licence', leading to paid employment for 12 individuals;
- we have worked closely with Avanta, Action for Employment, Job Centre Plus and Working Links to take over 80 individuals through our assessment events and providing employment for almost 50 people; and
- working with Job Centre Plus we have provided over 50 work experience placements, with 13 individuals subsequently offered employment.

Greggs provided the first Business in the Community (BITC) 'Business Connector' secondment in 2010/11 and we have continued our support for this important initiative. Undertaking long-term secondments from their company, Business Connectors become integrated into the community. They build relationships between local business and charities/local organisations, helping them to address some of the challenges facing the community.

Support can range from inspiring young people into the world of work and the creation of start-up businesses for young entrepreneurs, to forging partnerships between businesses and schools from disadvantaged areas. The programme has delivered real positive impacts on the communities in which Business Connectors operate and over two-thirds of organisations receiving support have increased the quantity or quality of the services they provide.

So far BITC estimate that the programme has leveraged £7.7 million to support communities and Greggs is proud currently to have five Business Connectors on secondment.

Social responsibility continued

A great place to work

At Greggs we believe it is our people who make us a successful company. That's why we want all our people to feel individually valued and looked after, operating an Employee Opinion Survey (EOS) to give them all the opportunity to provide feedback. In our 2013 EOS 88 per cent of our people responded and we achieved another high engagement score of 76 per cent (77 per cent in 2012). We want all our people to be provided with a safe workplace and to be rewarded for their hard work, sharing in the Company's success.

We are proud that we have continued our long-standing commitment to share 10 per cent of our profits with our people. While profit was lower in 2013, we shared £5.276 million of profit with our people and we again offered our annual 'Share Incentive Plan', enabling our people to reinvest their profit share into Greggs shares. We also launched our latest 'Share Save' scheme for employees in 2013, with 2,622 people taking part.

We operate a volunteering programme to allow our people to support groups and charities in their local communities. In 2013 a total of 566 days were donated, helping organisations as diverse as primary school breakfast clubs, food banks, a disabled riding school and the South East Wales Rivers Trust. This is an increase of over 100 days compared to 2012.

We offer all our people access to a free and confidential Employee Assistance Programme, available 24 hours a day, seven days a week. This provides our people with face-to-face or 'freephone' support, giving advice on anything from health and money matters to family and work issues. Our people are also eligible to join a Health Cash Plan through which employees can claim money back on the cost of check-ups and treatments for them and their family. We also offer childcare vouchers through our salary sacrifice scheme.

We have continued to develop our managers throughout 2013, providing role-specific development as well as generic management and leadership development. Our Career Pathways programme provides four different routes to enable individuals to develop into management, middle management, senior management and potential directorship roles. 87 per cent of our management population have received appropriate development during 2013 and we have also encouraged our female managers to develop their careers with us, delivering Female Career Roadshows across our regions.

We are pleased that our people development achievements were recognised at the North East CIPD Awards 2013, where we won the Talent Attraction and Management Award and were finalist and highly commended for the Excellence in Developing People Award.

Greggs is committed to ensuring the safety of our people and our customers. We narrowly missed our accident reduction target in our supply sites (9 per cent reduction against a 10 per cent target) and 'near miss' reporting has been introduced to provide greater learning on avoiding future accidents. Within our retail operations accident performance had a very slight increase against a 10 per cent reduction target. However, performance at our North Lakes bakery has been outstanding and in November the team reached the major milestone of 1,000 RIDDOR free days.

Human Rights

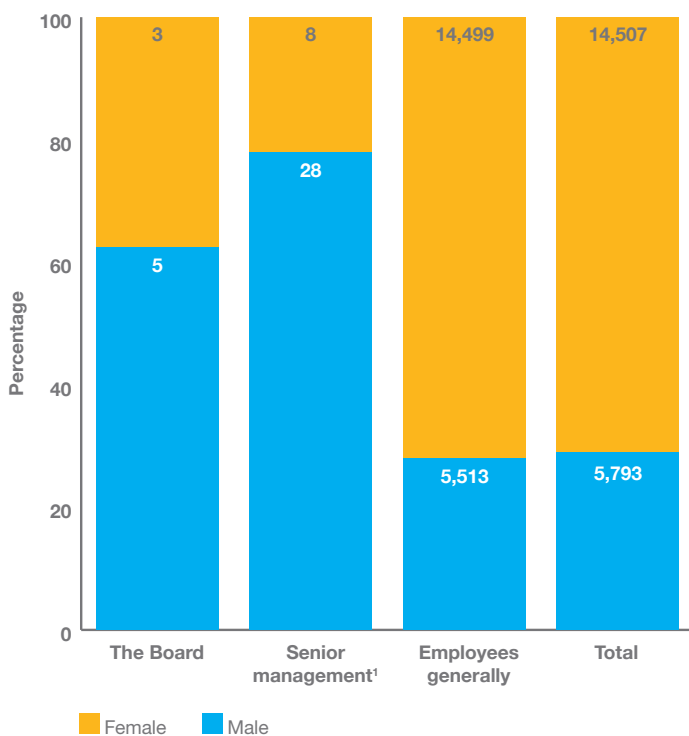
Whilst we do not have a specific human rights policy at present, we ensure that we treat our people in line with internationally proclaimed human rights principles. We have a range of policies in place, some of which are summarised below, demonstrating our effective management of human rights issues in the business.

Equality

Greggs is an inclusive organisation where no one receives less favourable treatment on the grounds of gender, gender re-assignment, nationality, national origin, marital status, colour, race, ethnic origin, creed or disability. We are committed to our Equal Opportunities Policy from recruitment and selection, through training and development, appraisal and promotion.

Gender statistics

The Board is proud of its reputation for bringing the Company's best talent through the organisation and encouraging people to succeed regardless of gender, race or any other characteristic. As at 28 December 2013, three out of seven of the most senior retail managers were women, as were three out of the ten bakery managers. The Board believes it is in the best interests of the Company to continue to bring women through to the very top of the organisation. The programme which we launched in 2012 to encourage more women to strive for the most senior positions in the business has continued to run.



¹Operating Board and Heads of Function (excluding Executive Directors)

Freedom of association

At Greggs we recognise the right of all employees to freedom of association and collective bargaining. Whilst we do not have a formal 'Freedom of Association' policy, the Company encourages all its employees in bakeries, shops and offices to become, and remain, members of a union.

Bribery and corruption

Greggs has an Anti-Bribery and Corruption Policy which applies to all employees and prohibits the offering, giving, seeking or acceptance of any bribe in any form to any person or company by anyone acting on its behalf, in order to gain an advantage in an unethical way.

Business conduct

We have a specific policy that sets out the standards of ethical behaviour that are expected of all employees.

Whistle-blowing

Greggs aims to operate in line with our values and with the highest standards of honesty and integrity. Our Whistle-Blowing Policy creates an environment where employees are able to raise concerns without fears of disciplinary action being taken against them as a result of any disclosure.

Political donations

Greggs has a clear policy forbidding political donations or contributions. This includes financial and in-kind contributions made by the Company.

Food our customers can trust

We are continually working to ensure our food is of great quality, so our customers can enjoy our products as part of a healthy, balanced diet. We are signatories to the Department of Health's Public Health Responsibility Deal and have signed up to specific food pledges on the provision of calorie information to customers and the removal of artificial trans-fats from ingredients.

As customers have become more aware of health issues, we have continued to provide nutritional information for our national lines and in 2013 we expanded this to include our local and regional products. We have also undertaken work to address concerns around salt, fat and calories in our food.

Social responsibility

continued

Salt

One of our focuses this year has been on salt reduction in bread and we have continued our work towards the Department of Health's recommended levels (1 gram of salt per 100 grams of bread). The average salt content across our national bread lines has met this target since 2011 and the final product sitting outside the 1 gram level will be reformulated in 2014. This year we have also successfully reduced the salt content in our local bread lines and the remaining products will be reformulated in early 2014 so that all Greggs bread lines will meet the Department of Health's target.

We have also addressed salt in our savoury range, with reformulation of our iconic steak bake delivering a 10 per cent reduction in salt. Longer-term work on salt reduction in savoury pastry has delivered significant salt savings. We now use 30 per cent less salt than in 2012, against a very small 1.9 per cent reduction in production, and compared to 2010 we use 45 per cent less salt, against a 20 per cent increase in production.

Fat and calories

We have successfully updated the nutritional information on our food and customers can now view full details of the fat and calorie content of all our food on our website. Calorie information is also available at the point of purchase for our entire national range and for the vast majority of our local lines. This allows customers to make informed decisions on their fat and calorie intake when they shop with Greggs. We have also successfully grown sales of food-on-the-go products under 400 calories by 20 per cent.

Customers have continued to take a greater interest in sustainability and food provenance in 2013, especially with the horsemeat scare affecting numerous suppliers and retailers in the UK. As a vertically integrated business, we benefit from producing our own food for sale in our own shops, so we know exactly what ingredients go into our food and where these are sourced from. We are proud that none of our products were affected by the scare.

All ingredients in our own produced food (representing 56% of sales) remain free from artificial colours, flavours, hydrogenated vegetable oils, added trans-fats and genetically modified ingredients.

Reducing our impact on the world around us

We have a formal environmental policy in place and as a responsible business we believe we have an obligation to minimise the impact our operations have on the local and wider environment. These impacts include energy and fuel usage, generation of waste, water usage, effluent discharge and refrigeration emissions. Our most significant impacts continue to be energy/fuel usage and waste and our successful work in landfill reduction and the installation of photovoltaic and voltage optimisation systems demonstrates the effectiveness of our work in these areas.

Global GHG emissions data

In line with the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, this is the first year we have publicly reported on our greenhouse gas (GHG) emissions as part of our annual Strategic Report. Our GHG reporting year is the same as our financial year, 30 December 2012 to 28 December 2013.

Emissions from:	Tonnes of CO ₂ e
Combustion of fuel & operation of facilities (Scope 1)	29,709
Fugitive emissions from refrigeration (Scope 1)	5,173
Gross Electricity purchased for own use (Scope 2)*	89,119
Company's chosen intensity measurement*: Tonnes of CO ₂ e per £ million of turnover	162.7

* GROSS emissions include the use of PV generated electricity. NET emissions are 89,046 tonnes with an intensity measure of 162.6 tonnes CO₂e per £m turnover.

We have reported on all of the emission sources which we deem ourselves to be responsible for, as required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. These sources fall within our operation's control and financial control boundaries. We do not have responsibility for any emission sources that are outside of our operational control.

The methodology used to calculate our emissions is based on the UK Government's Environmental Reporting Guidance (2013) and emission factors from UK Government's GHG Conversion Factors for Company Reporting 2013. The emissions included in this disclosure have been verified by the Carbon Trust as part of the verification of the wider 2013 Greggs Carbon Footprint.



We measure our direct carbon footprint and we continue to hold the Carbon Trust Standard in recognition of our work on carbon efficiencies. We complete the Carbon Disclosure Project on an annual basis.

Our aim is to reduce our carbon footprint (measured in tonnes of carbon per million £ of turnover) while continuing to grow sales to our customers:

- We have reduced our overall carbon footprint by 3.2 per cent this year, bringing our overall reduction since 2010 to 15.6 per cent;
- we have successfully reduced the carbon footprint of our manufacturing operations by 6.2 per cent*;
- despite investment in our shops to grow sales (including the installation of additional equipment), we have achieved a 1.4 per cent reduction in our retail carbon; and
- we have improved the MPG efficiency of our logistics operations by 3.5 per cent.

* GROSS CO₂e includes emissions from the use of PV generated electricity. NET CO₂e per £m turnover has fallen 6.4%.



FTSE4Good

Greggs remains a member of the FTSE4Good sustainability index.



We continue to take part in the Business in the Community 'Corporate Responsibility Index', achieving a SILVER rating in 2013 and a 2 star rating in 2014.



Photovoltaic array

As part of our carbon reduction work we have installed photovoltaic arrays on the roofs of ten of our bakeries. 1.3m kWh of electricity will be generated per year for use in the bakeries, saving almost 600 tonnes of carbon.

Within our retail operations we have used 2013 as a year of learning, investigating and trialling energy reducing technologies that will help shape future shop refit specifications. This includes the opening of an energy efficient concept shop which is trialling, amongst other things, doors on the shop front, doors on self-service fridges and a more efficient heating and cooling system for the shop that utilises waste heat from equipment.

We are pleased that our continued focus on reducing waste to landfill has seen us surpass our target to recycle 90 per cent of waste from production sites. We now recycle over 95.7 per cent of waste from these sites, and across our entire business we recycle over 86.6 per cent of our waste, an increase of 9 per cent on 2012.

Work has continued to increase the proportion of sustainable palm oil used and we now source over 70 per cent of our palm oil needs from sustainable sources. We have plans in place to further increase this proportion in 2014, so that 100 per cent of the palm oil we use in our fats will be certified as sustainable.

Social responsibility

continued

The following pages summarise our social responsibility performance in 2013 and present our targets and objectives for 2014.

Social responsibility targets: 2013 & 2014

Making a difference to our communities 2013

Extend the Greggs Breakfast Club partnership scheme to fund a total number of 300 clubs by the end of 2014.	✓
Aim to raise a million pounds for the BBC Children in Need appeal for the third successive year.	✓
Support the BITC Business Connectors scheme, seconding a leader from each of our seven regions to 'broker' strategic partnerships for the benefit of communities.	✗
Utilise the skills of our people to promote the employability of young people and those from marginalised groups, working with other businesses to help over 250 individuals.	✓

Key achievements

- 66 of our 255 Breakfast Clubs are now in partnership with other companies;
- 250 disadvantaged individuals have been helped with employability skills;
- we raised over £1.3 million for Children in Need, Poppy Appeal and the Philippines Typhoon Appeal; and
- we seconded five of our managers to the BITC Business Connectors Scheme.

Making a difference to our communities 2014

Continue to utilise the skills of our people to promote the employability of young people and those from marginalised groups, helping over 250 individuals in 2014.
Extend the Greggs Breakfast Club partnership scheme to fund a total of 300 clubs by the end of 2014.
Raise over £350,000 for the Greggs Foundation to support good causes in our local communities.
Double the amount of our unsold food that we donate to good causes.

A great place to work 2013

Ensure 80 per cent of our management population attend an appropriate development event.	✓
Improve our health and safety performance by reducing our accidents by 10 per cent (against our 2012 incident rates) within: <ul style="list-style-type: none"> • Retail; and • supply chain. 	✗ ✗
Commit to donating over 500 volunteering days as part of our Graded Manager Volunteering Programme to support local charities and communities.	✓
Continue to deliver development and career progression road-shows across all our regions, inspiring our female managers to go forward for senior management opportunities as they arise.	✓

Key achievements

- We donated over 566 volunteering days in 2013 to support local communities; and
- there was a slight increase in the number of accidents in our retail operations whilst we achieved a reduction of 9 per cent in our supply chain.

A great place to work 2014

In our 2014 Employee Opinion Survey we will maintain our engagement score at 76 per cent.
65% of management vacancies will be filled by internal candidates in 2014.
We will continue to expand our volunteering programme, donating at least 500 days and introducing a process to match the skills of our graded manager with the needs of local community and charity groups.
We will reduce RIDDOR accidents (from 2013 levels) by: <ul style="list-style-type: none"> • 20 per cent within our supply operations. • 10 per cent within our retail operations.

Key achievements

- Increased sales of under 400 calorie products by 20 per cent;
- reduced salt in our savoury production process by 30 per cent;
- introduced calorie labelling at point of sale; and
- hit salt targets in bread products for all but one line.

Key achievements

- We now divert over 95 per cent of waste from our production sites;
- 9 per cent increase in the proportion of waste we divert from landfill (now divert over 86 per cent of waste);
- 6.2 per cent reduction in carbon 'per £m turnover' in our bakery operations;
- 3.5 per cent improvement in MPG efficiency of our distribution fleet; and
- energy consumption in shops was reduced however we invested in additional equipment.

Food our customers can trust 2013

Publish nutritional information for customers on all local lines to complement existing information available on national lines.	✓
Continue to reduce salt content in bread, ensuring every Greggs bread product falls in line with the FSA/DoH 2012 target of 1 gram of salt per 100 gram of finished product.	✗
Continue work on our savoury range, reducing fat, salt and calories by 10 per cent without compromising the great taste and quality of our food.	✗
Increase the sales from products containing less than 400 calories by 20 per cent.	✓

Food our customers can trust 2014

Deliver a 5 per cent salt reduction in our savoury range without compromising the great taste and quality of our food.

Deliver a 5 per cent fat reduction in our sandwich range without compromising the great taste and quality of our food.

Increase sales of our '400 calorie or less' range by 10 per cent.

Achieve 'Tier 4' ranking in the Business Benchmark on Farm Animal Welfare.

Reducing our impact on the world around us 2013

Increase the proportion of waste we recycle from our production sites to 90 per cent.	✓
Deliver a 1.5 per cent improvement in our distribution fuel efficiency, measured on a 'miles per gallon' basis.	✓
Increase the proportion of Certified Sustainable Palm Oil we use to 65 per cent in 2013, working towards our target of 100% by 2015.	✓
Continue to target a 25 per cent reduction in our carbon footprint by 2015 (measured in tonnes of CO ₂ e per £m turnover), focusing on reducing energy usage (measured in tonnes of CO ₂ e per £m turnover) by: <ul style="list-style-type: none"> • 3 per cent in Bakeries; and • 3 per cent in Shops. 	<div style="display: flex; justify-content: space-between;"> ✓ ✗ </div>

Reducing our impact on the world around us 2014

Increase the proportion of Certified Sustainable Palm Oil we use in fats in our own manufactured products to 100 per cent.

Deliver a 2.5 per cent improvement in our distribution fuel efficiency (measured in 'miles per gallon').

Address carbon emissions from energy usage (tonnes per £m turnover) in our operations by:

- Reducing carbon in our production operations by 3 per cent.
- Restricting carbon increase in our retail operations to 2.5 per cent.

Deliver zero* waste to landfill from production sites by the end of 2014.

* Allowing for rounding.

Board of Directors



The Board

As at the date of this Report, the Board comprises the Chairman, three Executive and four Non-Executive Directors.

Board related announcements made during 2013 were as follows:

Appointments

Allison Kirkby

30 January 2013

Appointment as Non-Executive Director

15 May 2013

Appointment as Chair of Audit Committee

Roger Whiteside

4 February 2013

Appointment as Chief Executive from
Non-Executive Director

Ian Durant

15 May 2013

Appointment as Chairman

Helena Ganczakowski

2 January 2014

Appointment

Resignations

Kennedy McMeiken

8 March 2013

Resignation

Derek Netherton

15 May 2013

Resignation

Julie Baddeley and Iain Ferguson will not offer themselves for re-election by shareholders at the Annual General Meeting to be held on 1 May 2014 and will resign as Directors at the close of that meeting.

1.
Ian Durant FCA, FCT
Chairman

Joined the Board on 5 October 2011. Ian's background is in international financial and commercial management and he has experience of the retail, property, hotels and transport sectors. Ian's career includes leadership roles with the retail division of Hanson and Jardine Matheson, Hongkong Land, Dairy Farm International, Thistle Hotels, SeaContainers and as Finance Director at Liberty International. Ian is currently Chairman of Capital and Counties Properties PLC and a Non-Executive Director of Greene King plc and Home Retail Group PLC. Ian was appointed Chairman of the Company on 15 May 2013.

4.
Raymond Reynolds
Retail Director

Was appointed to the Board as Retail Director on 18 December 2006. He joined Greggs in retail management in 1986. During the late 1990s, as general manager he built a significant new business for Greggs in the Edinburgh region, and in 2002 he was appointed Managing Director of Greggs of Scotland.

7.
Helena Ganczakowski
Non-Executive Director

Joined the Board on 2 January 2014. Helena worked for Unilever for 23 years and held senior positions in brand management and marketing including UK Marketing Director and, ultimately, Head of Global Agencies. Helena is currently a Non-Executive Director of Croda International Plc, and also runs her own consulting business working with companies ranging from start-up businesses to FTSE 100 constituents, helping them to develop and implement strategies. Helena has a PhD in Engineering from the University of Cambridge. Helena is a member of the Audit, Nominations, and Remuneration Committees.

2.
Roger Whiteside
Chief Executive

Began his career at Marks & Spencer where he spent 20 years, ultimately becoming head of its food business. He was then one of the founding team of Ocado serving as Joint MD from 2000 to 2004. From 2004 to 2007 he led a successful turnaround as Chief Executive of the Thresher Group off-licence chain before joining Punch Taverns, ultimately becoming Chief Executive. Roger was appointed as a Non-Executive Director in March 2008, and became Chief Executive on 4 February 2013.

5.
Julie Baddeley
Non-Executive Director and Senior Independent Director

Was appointed to the Board in March 2005. She has held senior executive roles in Woolwich plc, where she was responsible for Information Technology and Human Resources, Accenture and Sema Consulting. Julie is Chairman of Harvey Nash Group plc and Chairman of Sustain Limited, the environmental consulting group. Julie is also a Non-Executive Director of Chrysalis VCT plc. Julie is a member of the Remuneration, Nominations and Audit Committees.

8.
Allison Kirkby, FCMA
Non-Executive Director

Joined the Board on 30 January 2013. Allison was previously Chief Financial Officer of Shine Group, the global media production company. Allison's career experience includes being Virgin Media's Executive Director of Finance Operations and Transformation; and before that she spent two decades with Procter & Gamble in a variety of senior financial and operational roles. Allison is also a trustee and Chair of the Finance Committee of In Kind Direct, one of The Prince's Charities. Allison assumed the Chair of the Audit Committee on 15 May 2013 and is also a member of the Remuneration and Nominations Committees.

3.
Richard Hutton, FCA
Finance Director

Was appointed to the Board on 13 March 2006. He qualified as a Chartered Accountant with KPMG and gained career experience with Procter & Gamble before joining Greggs in 1998. He was appointed Finance Director on 10 May 2006. Richard is a trustee of the Greggs Foundation and chairs Business in the Community's Regional Advisory Board.

6.
Iain Ferguson, CBE
Non-Executive Director

Joined the Board on 31 March 2009. Iain was Chief Executive of Tate & Lyle PLC until October 2009. Previously, he worked for Unilever where he held a number of senior executive positions. He is currently Chairman of Berendsen plc and Stobart Group Limited, and a Non-Executive Director of Balfour Beatty plc, Honorary Vice President of the British Nutrition Foundation and lead Non-Executive Director of the DEFRA Management Committee. Iain is Chairman of the Remuneration Committee and is also a member of the Nominations and Audit Committees.

9.
Jonathan Jowett
Company Secretary

Joined the Company in April 2010 and was appointed as Company Secretary on 12 May 2010. He is a solicitor by profession and has held the position of Company Secretary in a number of FTSE 250 and FTSE Smallcap companies. His previous employers include Avon Cosmetics Limited, SSL International plc, Wagon plc and Bakkavor Group. Jonathan is Secretary to the Board and each of its Committees.

Board of Directors

continued

Directors and their interests

The names of the Directors in office during the year, together with their relevant interests in the share capital of the Company at 30 December 2012 and 28 December 2013 (or at date of appointment if later) are set out in Note 25 to the accounts. Details of Directors' share options are set out in the Directors' Remuneration Report on pages 46 to 62.

In accordance with provision B.7.1 of the Governance Code, all Directors will retire from the Board at the AGM and offer themselves for election (in the case of Helena Ganczakowski) or re-election by shareholders.

The Nominations Committee has considered the appropriateness and suitability of each Director standing for election and has recommended to the Board that each individual should be put forward for election or re-election.

Directors' indemnities and conflicts

As at the date of this Report, indemnities are in force under which the Company has agreed to indemnify the Directors, to the extent permitted by law, in respect of losses arising out of, or in connection with, the execution of their duties, powers or responsibilities as Directors of the Company. The indemnities do not apply in situations where the relevant Director has been guilty of fraud or wilful misconduct.

Under the authority granted to them in the Company's articles of association, the Board has considered carefully any situation declared by any Director pursuant to which they have or might have a conflict of interest and, where it considers it appropriate to do so, has authorised the continuation of that situation. In exercising its authority, the Directors have had regard to their statutory and other duties to the Company.

Additional Information

- The information set out within the Governance Report on pages 38 to 42 forms part of the Directors' Report.
- Greenhouse gas emissions: All disclosures concerning the Group's greenhouse gas emissions, (as required to be disclosed under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013) are contained in the Social Responsibility section of the Strategic Review on page 30.

Authority to purchase shares

At the AGM on 15 May 2013, the shareholders passed a resolution authorising the purchase by the Company of its own shares to a maximum of 10,350,000 ordinary shares of 2p each.

That authority had not been used as at 28 December 2013.

The authority remains in force until the conclusion of the AGM in 2014 or 15 August 2014, whichever is the earlier. It is the Board's intention to seek approval at the 2014 AGM for the renewal of this authority.

Takeover directive information

Following the implementation of the European Directive on Takeover Bids by certain provisions of the Companies Act 2006, the Company is required to disclose certain additional information in the Directors' Report. This information is set out below:

- The Company has one class of share in issue being ordinary shares of 2p each. As at 26 February 2014, there were 101,155,901 such ordinary shares in issue. There are no shares in the Company that grant the holder special rights with regard to control of the Company;
- at general meetings of the Company, on a show of hands every shareholder present in person or by proxy has one vote only and, in the case of a poll, every shareholder present in person or by proxy has one vote for every share in the capital of the Company held by him;
- the Company's articles of association set out the circumstances in which shares may become disenfranchised. No shareholder is entitled, unless the Directors otherwise determine, in respect of any share held by him to be present or vote at a general meeting either personally or by proxy (or to exercise any other right in relation to meetings of the Company) in respect of that share in certain circumstances if any call or other sum is payable and remains unpaid, if the shareholder is in default in complying with a duly served notice under section 793(1) of the Companies Act 2006 (CA 2006) or if the shareholder has failed to reply to a duly served notice requiring him to provide a written statement stating he is the beneficial owner of shares;
- a notice convening a general meeting can contain a statement that a shareholder is not entitled to attend and vote at a general meeting unless his name is entered on the register of members of the Company at a specific time (not more than 48 hours before the meeting) and if a shareholder's name is not so entered he is not entitled to attend and vote;
- under the Company's articles of association the Directors may, in their absolute discretion, refuse to register the transfer of a share in certified form in certain circumstances where the Company has a lien on the share (provided that the Directors do not exercise their discretion so as to prevent dealings in partly paid shares from taking place on an open and proper basis), where a shareholder has failed to reply to a duly served notice under section 793(1) CA 2006 or if a transfer of a share is in favour of more than four persons jointly. In addition, the Directors may decline to recognise any instrument of transfer unless it is in respect of only one class of share and is deposited at the address at which the register of members of the Company is held (or at such other place as the Directors may determine) accompanied by the relevant share certificate(s) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer. In respect of shares held in uncertificated form the Directors may only refuse to register transfers in accordance with the Uncertificated Securities Regulations 2001 (as amended from time to time);

- under the Company's code on dealings in securities in the Company, persons discharging managerial responsibilities and some other senior executives may in certain circumstances be restricted as to when they can transfer shares in the Company;
- there are no agreements between shareholders known to the Company which may result in restrictions on the transfer of shares or on voting rights;
- details of the significant holders of the Company's shares are set out on page 42;
- where, under an employee share plan operated by the Company, a participant is the beneficial owner of shares but not the registered owner, the voting rights are normally exercised by the registered owner at the direction of the participant;
- the Company's articles of association may only be amended by special resolution at a general meeting of the shareholders;
- the Company's articles of association set out how Directors are appointed and replaced. Directors can be appointed by the Board or by the shareholders in a general meeting. At each Annual General Meeting, any Director appointed by the Board since the last Annual General Meeting must retire from office but is eligible for election by the shareholders. Furthermore, the Board has resolved that, in line with Governance Code provision B.7.1, all of the Directors will be subject to annual re-election by shareholders. Under the CA 2006 and the Company's articles of association, a Director can be removed from office by the shareholders in a general meeting;
- the Company's articles of association set out the powers of the Directors. The business of the Company is to be managed by the Directors who may exercise all the powers of the Company and do on behalf of the Company all such acts as may be exercised and done by the Company and are not by any relevant statutes or by the Company's articles of association required to be exercised or done by the Company in general meeting, subject to the provisions of any relevant statutes and the Company's articles of association and to such regulations as may be prescribed by the Company by special resolution;
- under the CA 2006 and the Company's articles of association, the Directors' powers include the power to allot and buy back shares in the Company. At each Annual General Meeting, resolutions are proposed granting and setting out the limits on these powers;
- the Company is not party to any significant agreements which take effect, alter or terminate upon a change of control of the Company, following a takeover bid; and
- there are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) that occurs because of a takeover bid. Details of the Directors' service agreements and terms of appointment are set out in the Directors' Remuneration Report on pages 46 to 62. However, provisions in the employee share plans operated by the Company may allow options to be exercised on a takeover.

Employees

Applications for employment of disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment within the Company continues and that appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

The Directors recognise the importance of good communications and good relations with employees. A weekly bulletin is sent to all shop staff and quarterly bulletin to all bakery employees.

Significant relationships

The Group does not have any contractual or other relationships with any single party which are essential to the business of the Group and, therefore, no such relationships have been disclosed.

By order of the Board

Jonathan D Jowett
Company Secretary

Greggs plc (CRN 502851)
Fernwood House
Clayton Road
Jesmond
Newcastle upon Tyne
NE2 1TL
26 February 2014

Greggs' governance structure is centred on a Board of Directors with diverse experience and a balance of independent Non-Executive, and Executive Directors.



Ian Durant Chairman

Chairman's introduction

I am pleased to introduce to shareholders our Governance Report for 2013.

There have been a number of changes to the Board this year. I was appointed Chairman to succeed Derek Netherton at the AGM in May 2013. We said goodbye to our Chief Executive Ken McMeiken at the beginning of March. After evaluating possible candidates and having taken external advice on the market we appointed Roger Whiteside, then a serving Non-Executive Director, to succeed Ken. In May, Allison Kirkby assumed the Chair of the Audit Committee. At the beginning of 2014 we welcomed Helena Ganczakowski to the Board as a Non-Executive Director.

Greggs' governance structure is centred on a Board of Directors with diverse experience and a balance of independent Non-Executive and Executive Directors. The culture within the Company of openness, challenge and debate is one which we embrace, and the size of the Board facilitates this. Each of the Non-Executive Directors serves on each of the three main Board Committees and is able to take account of the relationship between the work of the Committees.

The Board gave particular time and attention this year to managing a smooth succession for the Chief Executive and the Chairman and debating the re-assessment of strategy following Roger's appointment as Chief Executive.

The Audit Committee had a busy year, preparing for changes in reporting and disclosure, supporting the development of Internal Audit and monitoring the effectiveness of the Company's risk management processes as well as preparing for a tender of the external audit.

Following the Board's review of strategy, the Remuneration Committee, led by Iain Ferguson, consulted with certain major shareholders regarding proposals for incentive arrangements to align best the motivation of management with the interests of shareholders. Resolutions related to these proposals will be put to shareholders at the upcoming AGM on 1 May 2014.

In December 2013 it was announced that Greggs had left the FTSE 250 index as a consequence of the review of relative market sizes of companies. As a result of this, certain provisions of the Corporate Governance Code are no longer formally applicable. However, the Board will evaluate these and for the time being intends to comply fully with the Code save where it would be unduly onerous or expensive.

In respect of the passing of resolutions at the forthcoming AGM, the Board has decided that the outcome of resolutions put to the AGM will be determined by reference to the number of shares held by attendees at the meeting, and by the proxy vote. This is different from the previous practice which has been to pass resolutions on a show of hands, but aligns Greggs with what is now regarded as best practice. Nevertheless, I look forward to welcoming shareholders to the meeting and to receiving and answering their questions.

Ian Durant
Chairman

The Company is subject to the UK Corporate Governance Code issued by the Financial Reporting Council. The edition of the Code issued in September 2012 applied throughout the 2013 financial year, but the FRC has yet to change the Listing Rules and therefore requires that certain compliance statements are made in relation to the predecessor edition of the Code, issued in June 2010. This Governance Report, together with the Directors' Remuneration Report set out on pages 46 to 62 describes how the relevant principles and provisions of both codes ('the Governance Code') were applied to the Company in 2013 and will be relevant to the Company for the 2014 financial year.

In the Annual Report 2012, the Board reported that it did not intend to undertake an externally-facilitated evaluation as required by the UK Corporate Governance Code (June 2010) provision B.6.2, on the basis that there had been significant Board change, but that it intended to conduct such an evaluation in 2014. As the Company is no longer a constituent member of the FTSE 250, the requirement to undertake an externally-facilitated Board evaluation does not apply. Nevertheless the Board will consider whether such an approach is appropriate when it considers its evaluation process in Autumn 2014.

In all other respects the Board confirms that it was compliant with the Governance Code throughout the year.

All of the policies and terms of reference referred to in this report are available on the corporate website at <http://corporate.greggs.co.uk>.

The Board Effectiveness

Under the leadership of the Chairman, the Nominations Committee considers the blend of skills and experience that the Directors bring to the Board. This includes independent and objective experience of food retailing and manufacturing, finance, marketing, property, human resource management and corporate finance to complement the existing skills and experience of the Executive Directors.

The Board meets regularly to discharge its duties. At these meetings, it reviews strategy, financial performance against key indicators, resources, risk management and other matters

reserved for the Board. Whilst executive responsibility for running the Company's business rests ultimately with the Chief Executive, the Non-Executive Directors ensure that the strategies proposed by the Executive Directors are fully discussed and critically examined prior to adoption.

The Board schedules six meetings per year and meets on an ad hoc basis as required. In 2013, additional meetings were held to consider the appointment of new Board members. Attendance at meetings, including additional ad hoc meetings held during the year, is recorded in the schedule below, where the number of meetings actually attended are shown with the number of meetings that the individual could have attended.

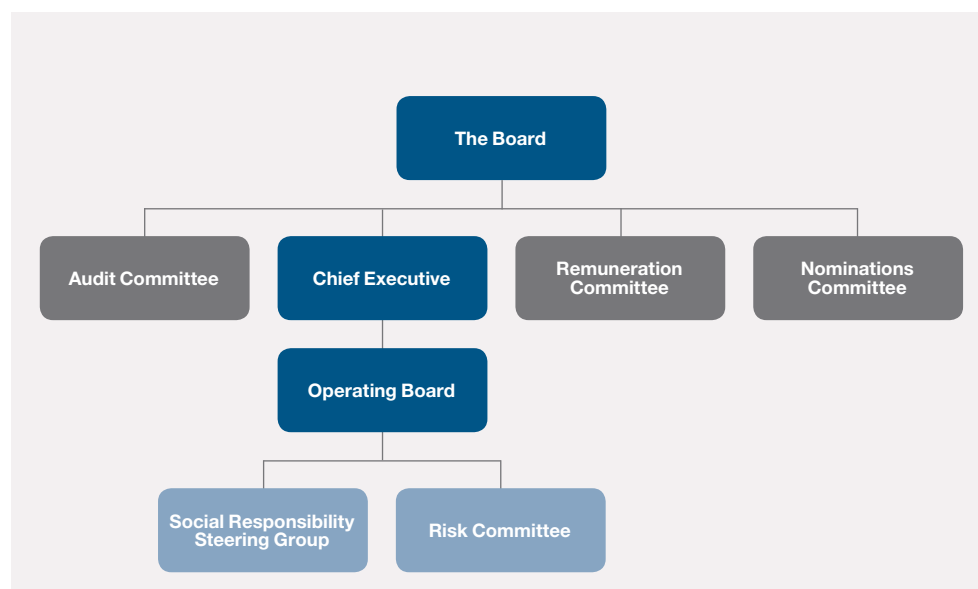
	Main Board	Audit Committee	Remuneration Committee	Nominations Committee
Number of meetings held	8	4	5	4
Ian Durant	8/8	2/2	2/2	4/4
Roger Whiteside	8/8	1/1	–	1/1
Richard Hutton	8/8	–	–	–
Raymond Reynolds	8/8	–	–	–
Julie Baddeley	8/8	4/4	5/5	4/4
Iain Ferguson	8/8	4/4	5/5	4/4
Allison Kirkby	7/7	4/4	5/5	2/3
Derek Netherton**	5/5	–	–	3/3
Kennedy McMeikan*	2/3	–	–	–

* Resigned on 8 March 2013.

** Resigned on 15 May 2013.

Where a Director is unable to attend a meeting, the Chairman solicits his or her views on key items of business ahead of the meeting, in order that all individual views are presented at the meeting.

In addition, the Non-Executive Directors meet formally twice each year and from time to time, as required.



Governance

continued

Board modus operandi

The Board has a policy on the separation of the roles of the Chairman and the Chief Executive. The Chairman sets the agenda for Board meetings in accordance with a specific Schedule of Matters Reserved policy and ensures that the Board is supplied, in a timely manner, with information in a form and of a quality appropriate to enable it to discharge its duties.

The Board considers that it effectively leads and controls the Company. All Directors take decisions objectively and in the interests of the Company. The Non-Executive Directors scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance. All Directors receive induction training on joining the Board and regularly update and refresh their knowledge through reading, attendance on relevant courses and/or activities outside the Company.

As part of the process of maintaining an awareness of the Company's activities and assessing the ability of the management team, members of the senior management team are invited to attend Board meetings and/or to present papers to the Board. This process also affords senior managers the opportunity to bring matters to the attention of the Board.

The Board sets itself a Rolling Agenda, which facilitates agenda planning for scheduled meetings across the year. In this way the Board monitors its activities and ensures that it is operating effectively. Standing items include progress with strategic objectives, financial and operational performance, health & safety and food safety, and governance developments.

Diversity

The Board believes it is in the best interests of the Company to continue to bring women through to the top levels of the organisation and, as a result of this belief, a programme which was launched in 2012 was extended in 2013 to encourage more women to strive for the most senior positions in the business. Our gender reporting is now contained on page 29 of the Strategy Report.

Succession, development and evaluation

On 4 February 2013, having taken advice from Zygos and considered the external candidate market, the Board appointed Roger Whiteside to be Chief Executive. Roger had previously spent almost five years as an independent Non-Executive Director. The ability to appoint Roger into the role of Chief Executive provided a smooth and timely transition following the resignation of Kennedy McMeikan.

Whilst the Board is satisfied that a process is in place for orderly succession to the Board and to positions of senior management, so as to maintain an appropriate balance of skills and experience within the Company and on the Board, nevertheless it intends to increase the focus on executive development and succession planning in 2014 and beyond.

All Directors are able to receive training and to take independent professional advice at the expense of the Company. They also have direct access to the Company Secretary, who is responsible for advising the Board on all governance matters.

Evaluation

The performance of the Board, its Committees and of all Directors is evaluated annually by a formal and rigorous process. For the review relating to 2013, each Director responded to a questionnaire agreed between the Chairman and the Company Secretary, and independently rated the Board's and its Committees' performance against the objectives set at the beginning of the year.

The Directors also considered the Board process, and provided comments on what they thought had gone well and areas for improvement.

For the first time, members of the Operating Board who are not Executive Directors were also invited to provide feedback on their interaction with the Board during the year, to include their relationships with the Non-Executive Directors and levels of support received.

The resulting Board paper, and Board debate, gave rise to a series of actions which were incorporated into the Board's objectives for 2014.

The Chairman meets with the Non-Executive Directors at least annually without the Executive Directors present. The Senior Independent Director meets the Non-Executive Directors annually without the Chairman present to appraise the Chairman's performance. There is also generally at least one meeting held each year between the Non-Executive Directors and the Chief Executive.

Election and re-election of Directors

All of the Non-Executive Directors who will offer themselves for election or re-election at the Annual General Meeting are considered by the Board to be independent in character and judgement and to be free from any business or other relationship or circumstance which is likely to affect or to interfere with the exercise of their independent judgement.

The Company's articles of association require that all Directors must retire and seek election at the first AGM following appointment. Accordingly, Helena Ganczakowski will resign as a Director and offer herself for election at the AGM to be held on 1 May 2014. Furthermore, the Board has resolved that, in line with Governance Code provision B.7.1, all other Directors will be subject to annual re-election by shareholders.

Board Committees

The Board delegates some of its activities to the following Committees, each of which has written terms of reference, which are available on the Company's website. The Company Secretary acts as secretary to and is in attendance at each of these Committees, and each of the Committees is provided with sufficient resources to undertake its duties.

The Audit Committee currently consists of four independent Non-Executive Directors: Allison Kirkby (Chair), Julie Baddeley, Iain Ferguson and Helena Ganczakowski. The Committee met four times in the year, and a fuller report on its activities is set out on pages 43 to 45.

The Remuneration Committee currently consists of four independent Non-Executive Directors: Iain Ferguson (Chairman), Julie Baddeley, Helena Ganczakowski and Allison Kirkby. The Committee's main duties (which it discharged during the year) are within the Directors' Remuneration Report which is on pages 46 to 62 of this Annual Report. This includes the Board's policy on remuneration, which will be put to binding vote of approval by shareholders at the AGM on 1 May 2014. A separate Executive Director committee, after discussion with the Chairman, sets the fees for the Non-Executive Directors so as to ensure that no Director is involved in setting his or her own remuneration.

The Nominations Committee currently comprises Ian Durant – Chairman, and all of the Non-Executive Directors. The Committee's main functions (which it discharged during the year) are to review the balance and constitution of the Board; to advise the Board as to whether Directors should be nominated for re-election by the members; and to approve and manage the process for setting the specification for all Board appointments, identifying candidates who meet that specification and making recommendations to the Board on the basis of merit and compliance with objective criteria in respect of all new Board appointments.

In recruiting additional Directors the Nominations Committee defines the role and uses external consultants to assist in identifying suitable candidates from which the Committee selects a short list and conducts interviews. The final candidate is then subject to formal recommendation by the Committee and approval by the Board.

During the year the Committee recommended to the Board the appointment of Roger Whiteside as Chief Executive. As a consequence, the Committee conducted a search for a replacement independent Non-Executive Director and the Board appointed Helena Ganczakowski to this role on 2 January 2014.

Throughout its activities, the Committee was supported by the Zygos Partnership.

Following appointment, new Directors are subject to an in-depth tailored induction process. In the case of Non-Executive Directors, this includes meeting with members of the Operating Board, visiting bakeries, shops and offices and being provided with an extensive Board Handbook which contains key information and policies that are relevant to the position. For new Executive Directors and Non-Executive Directors for whom the appointment is their first to a UK listed company, the induction includes details of the legal duties and obligations of being a Director of the Company.

Risk management

Details of the Company's principal risks and the management of them are set out within the Strategic Report, and given in pages 24 and 25.

The Board confirms that it has reviewed the effectiveness of the system of internal control (covering all material controls, including financial, operational, compliance and risk management systems) during the year under review and up to the date of approval of the Annual Report and Accounts.

Relations with shareholders

The Board ensures that there is effective communication with individual and institutional shareholders through the announcement of regular trading updates, as well as general presentations after the announcement of the interim and preliminary results and the posting of results on the Company's website. The Board receives reports on any comments received from shareholders and market analysts following these presentations.

The Chief Executive and the Finance Director carry out extensive engagement with institutional shareholders and market analysts, either meeting them as part of Company presentations and briefings, individual meetings or telephone calls.

Following his appointment as Chairman on 15 May 2013, Ian Durant met with a small number of significant institutional shareholders and the intention is that he will continue to schedule a number of meetings each year and be accompanied by other Non-Executive Directors. In addition, the Company Secretary and the Company's Brokers draw the attention of the Board to all relevant shareholder communications. The Board also reviews briefings and comments by analysts in order to maintain an understanding of market perceptions of the Company.

The Annual General Meeting (AGM) is well attended, with the relevant Chairs of the Board and its Committees available to answer any issues raised and any newly-appointed Directors being available to meet shareholders. During informal sessions both before and after the meeting, the Chairman, and all Directors are available to meet with any of the 60 or so individual private shareholders who are in attendance and who wish to ask questions. This is in addition to the opportunity given to shareholders to ask questions of the Board during the formal meeting, which session is always welcomed by those in attendance.

At the AGM, the balance of proxy votes cast for and against each resolution and the number of abstentions is displayed. All substantial issues, including the receipt of the Annual Report and Accounts, are proposed at the AGM as separate resolutions. Whereas previously all resolutions have been passed on a show of hands, the Board has decided that in 2014, all resolutions will be determined by poll, in accordance with best practice.

The Senior Independent Director is available to shareholders if they have concerns which they have not been able to resolve through the normal channels of the Chairman, Chief Executive or Finance Director, or for circumstances where such contact would not be appropriate.

The Company provides a significant amount of information both about its customer offerings in the bakery food-on-the-go market, as well as detailed information on the governance applied within the Company website: www.greggs.co.uk.

Substantial shareholdings

At 25 February 2014 the only notified holdings of substantial voting rights in respect of the issued share capital of the Company (which may have altered since the date of such notification, without any requirement for the Company to have been informed) were:

	Number of shares held	% of issued share capital
Troy Asset Management	5,220,667	5.16%
FMR	5,200,200	5.14%
Templeton Investment Counsel	5,059,689	5.0%
Norges Bank	4,129,470	4.08%

Accountability, audit and going concern

The Board acknowledges its responsibility to present a fair, balanced and understandable assessment of the Company's position and prospects. In order to assist the Board to comply with the requirements within the Governance Code, the Audit Committee was requested to undertake an assessment of the Annual Report and to make a recommendation to the Board. This request has been enshrined within the Audit Committee's terms of reference, which are available at www.greggs.co.uk.

The actions undertaken by the Audit Committee in confirming its advice to the Board included asking itself a series of challenging questions tabled by the auditor and reviewing the annual report as a whole to confirm that it presents a fair, balanced and understandable assessment. This was supported by a further independent review of the entire report, which was also considered by the Committee. In considering the advice of the Audit Committee, and having reviewed the Annual Report including the contents of the Strategic Report on pages 2 to 33, together with the statutory accounts themselves, the Board duly considers the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable, and provides the necessary information for shareholders to assess the Company's performance, business model and strategy.

A statement of Directors' responsibilities in respect of the preparation of accounts is given on page 63. A statement of auditor's responsibilities is given in the report of the auditor on pages 64 to 66.

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts (see basis of preparation on page 72).

Disclosure of information to the auditor

Each of the Directors who held office at the date of approval of this Directors' Report confirms that, so far as they are individually aware, there is no relevant audit information of which the Company's auditor is unaware; and that they have taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

By order of the Board

Jonathan D Jowett
Company Secretary

Greggs plc (CRN 502851)
Fernwood House
Clayton Road
Jesmond
Newcastle upon Tyne
NE2 1TL
26 February 2014

Audit Committee Report

The Committee plays an important part in the governance of the Company with its principal activities focused on the integrity of financial reporting, quality and effectiveness of internal and external audit, risk management and the system of internal control.



Allison Kirkby Chair of the Audit Committee

Introduction

I am pleased to present to you my first report as Chair of the Audit Committee. The Committee plays an important part in the governance of the Company with its principal activities focused on the integrity of financial reporting, quality and effectiveness of internal and external audit, risk management and the system of internal control.

There have been a number of significant changes for Audit Committees during the year under review. The revisions to the UK Corporate Governance Code took effect during the year and contain several new provisions relevant to the Audit Committee:

- The Board is required to make a statement that the Annual Report is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy. It is expected that most Boards will ask the Audit Committee to advise them on this statement;
- the Audit Committee report should provide more information on the significant issues considered in relation to the accounts; and
- the Audit Committee is required to explain how it has assessed the effectiveness of the external audit process.

The Competition Commission issued its report on the provision of statutory audit services to large companies in the UK in October 2013. The findings have been considered by the Audit Committee and are referred to below, especially in the section on external audit retendering.

The Committee will continue to keep its activities under review in the light of regulatory developments and emergence of best practice.

Allison Kirkby
Chair of the Audit Committee
26 February 2014

Composition

The Audit Committee is comprised of the following:

Allison Kirkby (Chair from 15 May 2013)
Julie Baddeley
Iain Ferguson
Helena Ganczakowski (appointed 2 January 2014)

It is the practice of the Company for all independent Non-Executive Directors to serve as members of the Audit Committee. Accordingly, Allison Kirkby joined the Committee on 30 January 2013 and Roger Whiteside, upon his appointment as Chief Executive stepped down from the Committee on 3 February 2013. Allison took over as Chair of the Audit Committee upon Ian Durant's appointment as Chairman of the Board on 15 May 2013 at which point Ian stepped down from the Committee. Dr. Helena Ganczakowski was appointed to the Committee when she joined the Board on 2 January 2014.

The Directors' biographies on page 35 detail the Committee members' previous experience. The Board considers that Allison Kirkby has recent and relevant financial experience and is confident that the collective experience of the members enables them to act effectively as an Audit Committee.

Audit Committee Report

continued

Role and responsibilities

Following the adoption by the Company of the revised version of the UK Corporate Governance Code as noted on page 39, the Board requested that the Committee advise them on whether it believes the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

The Committee received a report from the Head of Business Assurance who is not involved in the preparation of the Annual Report and Accounts and who conducted an independent review of it. The following factors were considered during the course of this review:

- Ensuring that all the statements are consistent with one another;
- verifying that figures in the narrative sections are consistent with the relevant financial detail;
- identifying any duplication of information;
- confirming that 'bad news' is included, as well as 'good news'; and
- highlighting any inappropriate use of technical language or jargon.

The Audit Committee considered the feedback from this report when making its recommendation to the Board regarding fair, balanced and understandable.

The terms of reference of the Committee can be accessed at www.greggs.co.uk.

The key responsibilities of the Audit Committee are:

- Ensuring that the accounting and financial policies of the Company are proper and effective;
- assisting the Board in fulfilling its oversight responsibilities by monitoring the integrity of the accounts and information published by the Company and reviewing significant financial judgements contained in them;
- reviewing the internal financial controls and the Group's approach to risk management;
- oversight of whistle-blowing arrangements;
- monitoring compliance with the Listing Rules and the recommendations of the Governance Code;
- oversight of the Company's external and internal auditors and reviewing the effectiveness and objectivity of the audit process; and
- reporting to the Board on how it has discharged its responsibilities.

Meetings during the year

The Audit Committee met four times in during the year. Details of Committee members' attendance is given on page 39.

The Committee normally invites the Company Chairman, the Executive Directors, the Head of Business Assurance and the external auditor to attend its meetings. Time is set aside bi-annually for discussion with the external auditor and with the Head of Business Assurance, in each case in the absence of all Executive Directors. The Committee also has access to the Company's management team and to its auditor and can seek further professional advice, at the Company's cost, if required. The Chair has regular contact with the Finance Director and

internal and external auditors, in addition to scheduled Committee meetings to ensure that emerging issues are addressed. She also has access to and, in 2013, met with two audit partners independent of the partner responsible for the audit.

Financial reporting

The Audit Committee reviewed the 2012 Annual Report and Accounts, interim results, preliminary results announcement and reports from the external auditor, KPMG Audit Plc, on the outcome of their reviews and audits in 2013.

During the year, and up to the date of this report, the Committee considered key accounting issues and judgements and related disclosures in the Group's accounts as follows:

The significant areas of judgement considered by the Committee in relation to the financial statements for the 52 weeks ended 28 December 2013 are set out below. These significant areas of judgement are principally borne out of the strategic review which took place during the year, the results of which were announced in August 2013. The strategic review took place as a response to declining like-for-like sales and reduced profitability. The impact of the suggested measures was reflected in a five-year financial plan and liquidity forecasts which were presented to the Board along with sensitivities for each scenario. The assumptions underlying each scenario were challenged robustly by the Committee which concluded that they represented an appropriate and prudent position. The specific areas below were reviewed further by the Audit Committee as the process of implementing the decisions arising from the review began.

- **Asset impairment** – the financial statements include asset impairment provisions made by assessing expected future cash flows. The results of the impairment reviews were presented by management to the Committee based on the following methodologies. For shop assets historic cash flows including attributable overheads were used as a base, with a zero per cent growth rate and a discount rate of 7 per cent applied over an appropriate period based on the remaining lease term. For supply chain assets the potential net realisable value of the sites was considered. The Audit Committee considered the sensitivities of the assumptions used and concluded that the impairment provisions were appropriate and that they reflected suitably the scenarios presented in the strategic review.
- **Accounting for onerous leases** – onerous lease provisions have been made for shops which have either been vacated or have been identified for closure or re-site. The key area of judgement in making this provision is the determination of the length of time it will take to find a suitable exit opportunity for each lease. The Committee reviewed management's assessment in respect of these leases and concluded that the assumptions made were appropriate and in line with those presented in the strategic review.

The Committee also considered other key accounting issues and related disclosures in the Group's accounts as follows:

- Whether any changes in accounting policy were required following changes in the business or in legislation;
- the impact of changes in accounting standards and their relevance, if any, to the Company;
- information provided by the Finance Director regarding future financial plans, risks and liquidity to determine whether the going concern basis of accounting remained appropriate;

- an assessment of the impact of IAS 19 (Revised) including the restatement of prior year accounts;
- the requirements of IFRS 8 and the requirement to disclose operating segments;
- future accounting implications of planned investments in processes and systems;
- the revised exposure draft on the treatment of operating leases and the likely impact on the Group accounts;
- the impact of the advancement of year end reporting timetable and any risks that might arise from this; and
- reports from the Company Secretary and Finance Director which assess the Company's compliance with Listing Rules.

External audit

Assessing external audit effectiveness

The Audit Committee discusses and agrees the scope of the audit with the external auditor and agreed their fees in respect of the audit.

The Committee reviewed the effectiveness of the external audit. It considered the results of external quality inspections of KPMG by the Audit Quality Review Team. It sought feedback from senior management, by way of a detailed questionnaire, in respect of the effectiveness of the audit process with particular reference to audit planning and design and audit execution.

The Committee also considered the effectiveness of the audit through the reporting from and communications with the auditor and an assessment of the auditor's approach to key areas of judgement and any errors identified during the course of the audit.

The Committee concluded that the audit was effective and that the relationship and effectiveness of the external auditor be kept under review.

Appointing the auditor and safeguards on non-audit services

It is the responsibility of the Committee to monitor the independence and objectivity of the external auditor (including the impact of any non-audit work undertaken by it) and its suitability for re-appointment.

The Company has a formal policy to ensure that the provision of non-audit services by the external auditor does not compromise the auditor's independence or objectivity. Consequently all use of the external auditor for non-audit work must be reported to and approved by the Committee and the aggregate of such fees will normally be less than 100 per cent of the audit fee. In circumstances where such non-audit fees are significant relative to the audit fee an explanation would be provided in the subsequent Audit Committee Report. In addition, the Audit Committee ensures that the external auditor has its own policies and is subject to professional standards designed to safeguard their independence as auditor.

The Audit Committee has reviewed whether, and is satisfied that, the Company's auditor, KPMG Audit Plc, continues to be objective and independent of the Company. KPMG Audit Plc does perform non-audit services for the Group but the Audit Committee is satisfied that its objectivity is not impaired by such work. In 2013, non-audit fees paid to KPMG Audit Plc and related KPMG operations amounted to £50,000 (which is 34 per cent of the audit fee for the year) and principally related to taxation compliance services and pension scheme audits.

Reappointment of auditor

In accordance with Section 489 of the Companies Act 2006, a resolution for the reappointment of KPMG Audit Plc as auditor of the Company will be proposed at the forthcoming Annual General Meeting, subject to the retendering process noted below.

Retendering the External Audit

The Committee intends to retender the audit during the financial year ending 27 December 2014. KPMG has been the Company's auditor at least since the Company was floated on the London Stock Exchange in 1984 and in that time there has not been a tender. The tender process will commence in March 2014 immediately following the preliminary announcement of our 2013 results and the Board is expected to have made a decision by the time of our Annual General Meeting on 1 May 2014.

Risk management and internal control

Internal Control

The Committee reviewed the Company's internal control environment to satisfy itself that procedures are in place to ensure that assets are well protected, authority levels for expenditure are clear, segregation of duties exists and performance is regularly monitored. Processes are in place to ensure that key controls are being operated and compliance with these processes is the subject of inspection by the internal audit team and review by the Audit Committee.

Whistle-blowing

There were five events in the year, mainly relating to complaints about individual treatment by line management. The events were reported either directly to the Chair of the Audit Committee by telephone or email, or came in via another external route. In each case the issues were investigated, a judgement was made and action taken where possible with an appropriate level of discretion by senior management, with the support of Internal Audit/ Business Assurance. The outcome of all matters was reported to the Audit Committee as part of its annual review.

Risk Management Process

The Audit Committee undertakes a review of the risk management process in the Group at least annually. This process is detailed on page 25, and it was reviewed by the Committee to determine the appropriateness of the process in light of the risks identified.

Internal audit

The work of the internal audit function is set out in more detail within the Principal Risks and Uncertainties section on pages 24 and 25 of this Annual Report. There are three members of the team, including the Head of Business Assurance. The Audit Committee approves the annual plan for the team and monitors progress against that plan. The effectiveness of the Internal Audit team and its level of resource are reviewed by the Committee at least annually.

Committee effectiveness

Each year the Committee reviews critically its own performance and considers where improvements can be made.

Allison Kirkby

Chair of the Audit Committee

26 February 2014

As Chairman of the Remuneration Committee and on behalf of your Board, I am pleased to present our Directors' Remuneration Report for the 52 weeks ended 28 December 2013.



Iain Ferguson Chairman of Remuneration Committee

Introduction

Annual statement

As Chairman of the Remuneration Committee (the Committee) and on behalf of your Board, I am pleased to present our Directors' Remuneration Report for the 52 weeks ended 28 December 2013.

In accordance with the new regulations, and as required by law, our report has been split into two parts. The policy report will be subject to a binding shareholder resolution and the annual report on remuneration will be subject to an advisory shareholder resolution at the Company's Annual General Meeting (AGM) on 1 May 2014.

Business strategy and link to remuneration policy

2013 has been a year of significant change for Greggs. The major strategic review, referred to in the Chairman's Statement, has provided us with the base to reappraise and adjust our remuneration policy to support the change programme and to encourage the delivery of long-term profitable growth.

As indicated in both the Chairman's Statement and Chief Executive's Report, as a result of incurring the costs of investing in the change programme, profit growth is likely to be constrained over the next two years.

With the change of strategic direction in mind, and to ensure there continues to be strong alignment between the business strategy and the remuneration of Executives, we consulted with our major shareholders and have made a number of adjustments within our remuneration policy:

- Our bonus plan links directly to the four key pillars outlined in the Chief Executive's Report on page 17; and
- our Performance Share Plan (PSP) performance conditions now refer to earnings per share (EPS) (as was previously the case) and return on capital employed (ROCE) (in place of total shareholder return). EPS remains our primary long-term KPI, however, ROCE is extremely relevant currently, to ensure the Executives focus on redeploying capital efficiently through the planned investment programme whilst continuing to create returns well above the weighted average cost of capital (WACC).

We anticipate that 2014 will be a year of further change for the business as we move forward with our new plan to focus on the growing food-on-the-go market and I believe this remuneration policy delivers the alignment required.

Performance in 2013 and incentive payments

Roger Whiteside achieved his strategic objectives for 2013, which led to 100 per cent of the bonus relating to personal objectives becoming payable. This equates to 20 per cent of his maximum potential, in line with the other Executive Directors. He received no payment for both the profit and sales elements as neither of the trigger points were reached. Notable achievements against his personal objectives included:

- Completion of the strategic review and five-year plan with focus on bakery food-on-the-go and the four key pillars of activity:
 - great tasting fresh food;
 - a great shopping experience;
 - simple and efficient operations; and
 - improvement through change.
- in year progress on own shop like-for-like sales growth culminating in a strong fourth quarter performance; and
- good progress on step change plans.

Decisions taken by the Committee in 2013

The Committee considered a number of key issues in relation to the remuneration policy and its implementation:

- There was a review of the annual bonus plan and PSP policy for the Chief Executive in order to effect his recruitment;
- this resulted in the maximum annual bonus opportunity for the Chief Executive being increased to 125 per cent of base salary in line with market norms. In addition, a transitional bonus award was agreed in compensation for bonus forfeited from his previous employer;
- the PSP award level for the Chief Executive was increased from 90 per cent to 120 per cent of base salary for the 2013 award only; and
- during the year we conducted a full review of our annual bonus plan and PSP with a number of changes to be introduced for 2014 after the Committee conducted a consultation with major shareholders in advance of policy changes.

Approach for 2014

The general salary increase for Executive Directors was 1.6 per cent which took effect from 1 January 2014.

Under the new policy we have changed the terms of the annual bonus plan and the PSP. For the annual bonus plan we have adjusted the balance between profit, sales and strategic objectives and added a new underpin for the sales and strategic elements. A deferred share element has been added where annual bonus payments exceed 50 per cent of base salary.

For the PSP we have moved from the previous measure, which was an equal split between relative EPS growth and TSR, to an equal split between EPS growth and ROCE.

The Committee will continue to be mindful of our shareholders' views and actively welcomes feedback on issues in relation to Executive remuneration.

We believe that our policy delivers a robust link between reward and performance and is aligned with our strategic goal of delivering long-term sustainable shareholder value.

Iain Ferguson CBE

Chairman of the Remuneration Committee

Regulatory Framework

The policy report has been prepared in accordance with the provisions of the Companies Act 2006 (the Act) and The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (the Regulations). It also meets the requirements of the UK Listing Authority's Listing Rules.

The policy has been developed taking into account the principles of the UK Corporate Governance Code 2012 and the views of our major shareholders. The policy will be subject to a binding shareholder vote at the 2014 AGM, and, if approved, will take formal effect from that date.

The annual statement by the Chairman of the Remuneration Committee and the annual report on remuneration will be subject to an advisory vote at the 2014 AGM.

The Regulations also require our auditor to report to shareholders on the audited information within this Remuneration Report and to state whether, in their opinion, the relevant sections have been prepared in accordance with the Act and the Regulations. The auditor's opinion is set out on pages 64 to 66 and we have indicated appropriately the audited sections of this Remuneration Report.

Remuneration policy report

The Company's remuneration policy is to continue to provide competitive remuneration packages that will attract, retain and motivate high calibre individuals with appropriate skills and experience, who are incentivised to achieve sustainable long-term growth and value that will best serve the interests of the Company, its shareholders, its employees and customers.

The Committee set the remuneration for our recently recruited Chief Executive broadly at a median level with reference to market data. The Committee is comfortable with the positioning for the three Executive Directors and does not anticipate any significant increases to remuneration levels (other than salary increases in line with the average of the workforce) nor to the mix between the different components of the packages for the duration of the shareholder-approved policy period.

The Committee ensures that the Executive Directors are provided with appropriate incentives to enhance the Company's performance as well as to reward them for their personal contribution to the success of the business. The Committee also ensures that the rewards for all senior executives are closely aligned to the interests of shareholders.

Directors' Remuneration Report

continued

Key aspects of the remuneration policy for Executive Directors

The policy for the remuneration of the Executive Directors is set out in the table below:

Element	Purpose and strategy	Operation	Maximum opportunity
Base salary	To attract and retain high calibre individuals. Set to reflect the market.	Reviewed and set annually in January. Benchmarked periodically by the Committee against the remuneration levels for executives in similar roles in companies of a comparable size. Individual performance and contribution is recognised in setting salary levels. Salaries are paid monthly in cash.	Key reference points for salary increases are market and economic conditions and, in line with our values, the approach to employee pay throughout the organisation.
Benefits	To support a competitive remuneration package in the market place.	Benefits include provision of a company car (or cash in lieu), private medical health care, life assurance and permanent health insurance.	No maximum limit is prescribed particularly as the cost of providing insured benefits fluctuates over time. However, the Committee monitors, on an annual basis, the overall cost of the benefit provision.
Pension	To support a competitive remuneration package in the market place.	Executive Directors can elect to either: <ul style="list-style-type: none"> participate in the Company defined contribution pension scheme (up to a cap). Above the cap Executive Directors receive a salary supplement; or take cash in lieu of this contribution paid as a supplement to their salary on a monthly basis. <p>The Executive Directors are able to make this choice on an annual basis. The remuneration adjustment is disclosed later in this report.</p>	Up to 22.5 per cent of base salary contribution for the Chief Executive and up to 15 per cent of base salary for other Executive Directors.
Annual bonus (including profit share)	To incentivise achievement of annual targets and objectives, consistent with the short to medium-term strategic needs of the business, so as to encourage sustainable growth in the Company's operating profits.	The bonus will be based on a mix of business KPIs, with operating profit being the largest component of the mix of metrics and this will not be less than 50 per cent of the overall mix. Targets for each metric are set in advance and in line with business planning objectives set by the Committee. Each Executive Director is entitled to participate in the Company's profit sharing scheme available to all employees. The value of this is then deducted from their annual bonus and is subject to the individual cap. The Committee will use appropriate underpins for any non-profit based element of the annual bonus such that payment under these elements may be scaled back (potentially to zero), at the discretion of the Committee, in the event that the operating profit performance for the year is judged to be running significantly below that required for the achievement of the long term strategy. Any bonus paid in excess of 50 per cent of the maximum will be payable in shares, deferred for two years with vesting subject to continued service. The value of dividends paid on deferred bonus shares is rolled up and paid out on vesting. A clawback mechanism applies in the event of misstatement, error or misconduct.	Capped at 125 per cent of base salary for the Chief Executive and 90 per cent of base salary for other Executive Directors. On-target performance delivers a bonus of 60 per cent of the maximum.

Element	Purpose and strategy	Operation	Maximum opportunity
Performance share plan	To incentivise long-term value creation, retention of our talent and to ensure alignment of Executive Directors' and shareholders' interests.	Awards are granted under the PSP annually at the discretion of the Committee. Performance conditions will be based on an equal split of two different financial measures, EPS and ROCE (for discrete parts of an award). Targets will be set for each metric which reflect the strategic plan and business outlook over the respective performance period. The mix may alter for future awards and/or different metrics, such as TSR, may be used. Performance will be measured over a three-year period with an additional mandatory holding period of two years for the vested shares (net of tax). A clawback mechanism applies in the event of misstatement, error or misconduct.	90 per cent of base salary for Chief Executive and 70 per cent of base salary for other Executive Directors 120 per cent of base salary in exceptional circumstances. Threshold vesting at 25 per cent of the maximum.
Savings Related Share Option Scheme (SAYE)	To encourage employees at all levels within the Company to understand better and so participate in the growth in value of the Company.	No performance conditions have been attached to options granted pursuant to the Company's SAYE Scheme, which is available for all employees. The rules of that scheme require that all options granted must be on equal terms.	Executives may enter into a contract to save up to the maximum allowed under HMRC guidelines.
Share retention guidelines	To further align the interests of Executive Directors to those of shareholders.	The Chief Executive is required to build up a shareholding of 150 per cent of base salary within five years of appointment. Other Executive Directors are required to build up a shareholding of 100 per cent of their respective base salaries within a five-year period. This is achieved through vested awards granted via the PSP and deferred bonus shares.	n/a

Executive Share Option Scheme

The Remuneration Committee is responsible for overseeing the operation of all of the share-based incentives deployed in the Company. The Greggs plc 2004 Inland Revenue Approved Executive Share Option Scheme and the Greggs plc 2004 Executive Share Option Scheme will expire shortly and shareholders will be asked at the AGM to be held on 1 May 2014 to approve the adoption of new schemes. The rules of the new schemes are summarised in the Notice of Annual General Meeting, and will be available for inspection at the registered office of the Company and at the venue at which the AGM is to be held at such times as will be set out in the Notice of Annual General Meeting.

Choice of performance measures and approach to target setting

The annual bonus is based on performance against a range of financial and strategic performance measures. This range of metrics measures achievement of the Company's key operational objectives. The Committee reviews the KPIs each year and varies them as appropriate to reflect the priorities for the business in the year ahead. A sliding scale of targets is set for each KPI to encourage continuous improvement, or sustained high levels of performance.

The PSP is based on an equal split of EPS and ROCE performance. EPS, which is a direct measure of profit performance, is our primary long-term KPI. ROCE is considered to be particularly relevant at the current time as this will focus Executives on redeploying capital efficiently through the planned investment programme, whilst continuing to create returns well above the WACC. The relative mix of the performance measures may be altered for future awards.

A sliding scale of challenging performance targets is set for each measure. The Committee will review the choice of performance measures and the appropriateness of the performance targets prior to each PSP award. The Committee has discretion to set different targets for future awards. The targets for awards granted under this remuneration policy are set out for shareholder approval in the annual report on remuneration.

Directors' Remuneration Report

continued

Policy discretion

The Committee will operate incentive plans in accordance with their respective rules, the Listing Rules and HMRC rules where relevant. The Committee, consistent with market practice, retains discretion over a number of areas relating to the operation and administration of certain plan rules. These include (but are not limited to) the following:

- Who participates;
- the timing of the grant of award and/or payment;
- the size of an award (up to plan/policy limits) and/or a payment;
- the result indicated by the relative TSR performance condition may be scaled back (potentially to zero) in the event that the Committee considers that financial performance has been unsatisfactory and/or the outcome has been distorted due to the TSR for the Company or any comparator company being considered abnormal;
- discretion relating to the measurement of performance in the event of a change of control or reconstruction;
- determination of a good leaver (in addition to any specified categories) for incentive plan purposes and the treatment of leavers;
- adjustments required in certain circumstances (e.g. rights issues, corporate restructuring and special dividends); and
- the ability to adjust existing performance conditions for exceptional events so that they can still fulfil their original purpose.

Legacy arrangements

For the avoidance of doubt, in approving this policy report, authority is given to the Company to honour any commitments entered into with current or former Directors (such as the payment of a pension or the unwinding of legacy share schemes) that have been disclosed to shareholders in previous Remuneration Reports. Details of any of these payments to former Directors will be set out in the annual report on remuneration as they arise.

Elements of package – Non-Executive Directors

In order to ensure that no Director is involved in deciding his/her own remuneration, the fees payable to Non-Executive Directors are set, after consultation with the Chairman, by a committee of the Board consisting only of the Executive Directors. The fees payable to the Chairman are set by the Remuneration Committee.

These fees are reviewed and set annually in December and implemented from 1 January.

Element	Purpose and strategy	Operation	Maximum opportunity
Non-Executive Chairman and Directors' fees	To attract and retain high quality and experienced Non-Executive Chairman and Directors.	The Chairman is paid an all-encompassing fee. Non-Executive Directors are paid a basic fee and the Chairmen of the Main Board Committees and the Senior Independent Director (SID) are paid an additional fee to reflect their additional responsibilities. Where the SID role is combined with that of chairing a Committee then only one fee is paid. Non-Executive Directors are not eligible for pension scheme membership, bonus or incentive arrangements.	There is no prescribed maximum.

Non-Executive Directors are appointed subject to the Company's articles of association, retiring and seeking election at the first AGM after appointment. Thereafter, every Director will be subject to annual re-election by shareholders. The Nominations Committee advises the Board as to whether Directors should be nominated for re-election. Non-Executive Directors are not entitled to compensation for early termination of their appointments prior to the date on which they would next be due to offer themselves for election or re-election, or if not re-appointed at such time.

The following table shows the effective date of appointment for each Non-Executive Director:

Non-Executive Director	Original date of appointment
Ian Durant	5 October 2011
Julie Baddeley	1 March 2005
Iain Ferguson	31 March 2009
Allison Kirkby	30 January 2013
Helena Ganczakowski	2 January 2014

Non-Executive Directors are appointed on an understanding that the appointment will last for six years, but without any commitment by either party.

Difference in remuneration policy across the Group

The remuneration policy for the Executive Directors is designed having regard to the policy for employees across the Group as a whole.

There are differences in salary levels and in the levels of potential reward depending upon seniority and responsibility, although a key reference point for executive salary increases is the average increase across the general workforce. A higher proportion of the Executive Directors' remuneration package is delivered through performance-related pay and in share-based form, which provides a good link to long-term Company performance.

All employees, with one year's service or more, may participate in the SAYE scheme and in the Share Incentive Plan (SIP) that are run annually. Under the SAYE scheme, at the end of a three-year saving period, employees can buy Greggs shares at a discounted rate.

With the SIP, all employees may purchase Company shares from pre-tax salary subject to HMRC limits.

After six months' service all employees are eligible to participate in the profit sharing scheme in which they share 10 per cent of our profits.

The Committee does not currently consult with employees on Directors' pay policy, although the Committee will keep this under review.

Policy on recruitment remuneration

The Committee will aim to set a new Executive Director's remuneration package in line with the Company's approved policy at the time of appointment. The Committee will take into account, in arriving at a total package and in considering the quantum for each element of the package, the skills and experience of the candidate, the market rate for a candidate of that experience as well as the importance of securing the best available candidate.

Annual bonus and PSP awards will not exceed the policy maxima (not including any arrangements to replace forfeited deferred pay). Participation in the annual bonus plan and PSP will normally be pro-rated for the year of joining. The Committee may make one-off additional cash and/or share-based awards as it deems appropriate, and if the circumstances so demand, to take account of deferred pay forfeited by an Executive on leaving a previous employer. Awards to replace deferred pay forfeited would, where possible, reflect the nature of awards forfeited in terms of delivery mechanism (cash or shares), time horizons, attributed expected value and performance conditions. Other payments may be made in relation to relocation expenses and other incidental expenses as appropriate.

In the case of an internal appointment, any variable pay element awarded in respect of the prior role would be allowed to pay out according to its terms and any other ongoing remuneration obligations existing prior to appointment would continue.

For the appointment of a new Chairman or Non-Executive Director, the fee arrangement would be set in accordance with the approved remuneration policy at that time.

Directors' Remuneration Report

continued

Service contracts and policy on cessation

Executive Directors' service contracts contain the following remuneration-related aspects:

Provision	Detailed terms
Remuneration	<ul style="list-style-type: none"> • Salary, pension and benefits; • company car or cash allowance; • private medical health care for the Director; • permanent health insurance; • participation in annual bonus and profit share (subject to scheme rules); • participation in long-term incentive schemes or similar arrangements (subject to scheme rules); and • life assurance.
Notice period	<ul style="list-style-type: none"> • Chief Executive's contract is terminable on 12 months' notice served by either the Company or the Director; • other Executive Directors' service contracts are terminable on 12 months' notice served by the Company or on six months' notice served by the Director; and • any future Executive Directors' service contracts will be terminable on 12 months' notice served by either party.
Termination payment	<ul style="list-style-type: none"> • Payment in lieu of notice equal to any unexpired notice of termination given by either party; and • payment in lieu shall not include: <ul style="list-style-type: none"> – any bonus payment; – any payment in respect of benefits which the Director would have been entitled to receive; and – any payment in respect of any holiday entitlement that would have accrued during the period for which the payment in lieu is made. <p>Details of the circumstances in which the Committee has the ability to exercise discretion with regards to termination payments are set out below.</p>

The Company's policy is that current Executive Directors' service contracts do not have a specific duration but may be terminated with 12 months' notice from the Company and six months notice from the Executive Director. Any future Executive Directors' service contracts will be terminable on 12 months' notice served by either party. Under their service contracts the Executive Directors are entitled to salary, pension contributions and benefits for their notice period save where a payment in lieu is to be made. The Company would seek to ensure that any payment is mitigated by use of phased payments and offset against earnings elsewhere in the event that an Executive Director finds alternative employment during his notice period. There are no contractual provisions in force other than those set out above that impact any termination payment.

Areas where the Committee can exercise discretion with regards to termination payments are:

- Annual bonus may be payable pro-rated for that part of the year worked;
- any unvested awards held under the deferred annual bonus will normally lapse at cessation unless the individual is leaving for certain reasons (defined under the plan as death, injury, ill-health, disability, redundancy, retirement, his office or employment being with either a company which ceases to be a Group member or relating to a business or part of a business which is transferred to a person who is not a Group member, a change of control or any other reason the Committee so decides). In these circumstances unvested awards will normally vest at the cessation (unless the Committee decides they should vest at the normal vesting date);
- any unvested awards held under the PSP will lapse at cessation, unless the individual is leaving in the circumstances set out above for the deferred annual bonus. In these circumstances, unvested awards will normally vest at the normal vesting date (unless the Committee decides they should vest at cessation) subject to performance conditions being met and scaling back in respect of actual service as a proportion of the total vesting period (unless the Committee decides that scaling back is inappropriate); and
- the Committee may agree to payment of disbursements such as legal costs and outplacement services if appropriate and depending on the circumstances of cessation.

The table below sets out the details of the Executive Directors' service contracts:

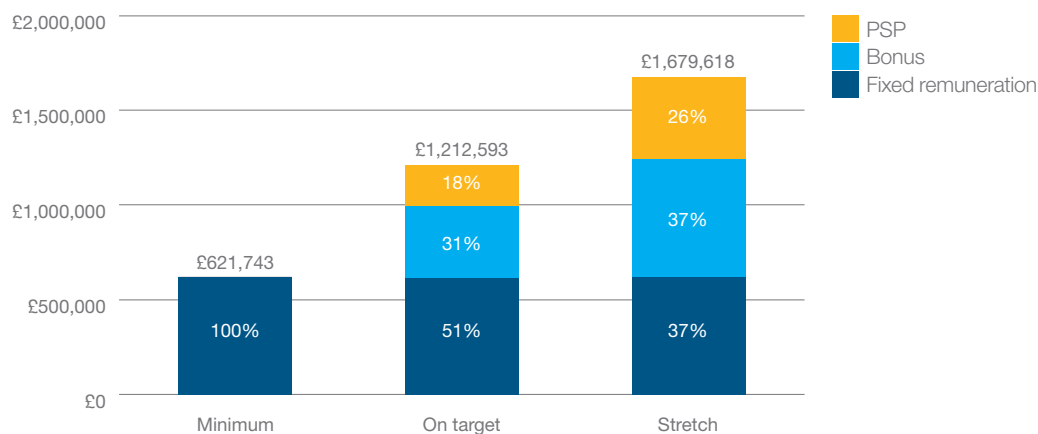
Executive Director	Date of contract
Roger Whiteside	4 February 2013
Raymond Reynolds	18 December 2006
Richard Hutton	7 April 2006

The service contracts are available for inspection during normal business hours at the Company's registered office, and are available for inspection at the AGM.

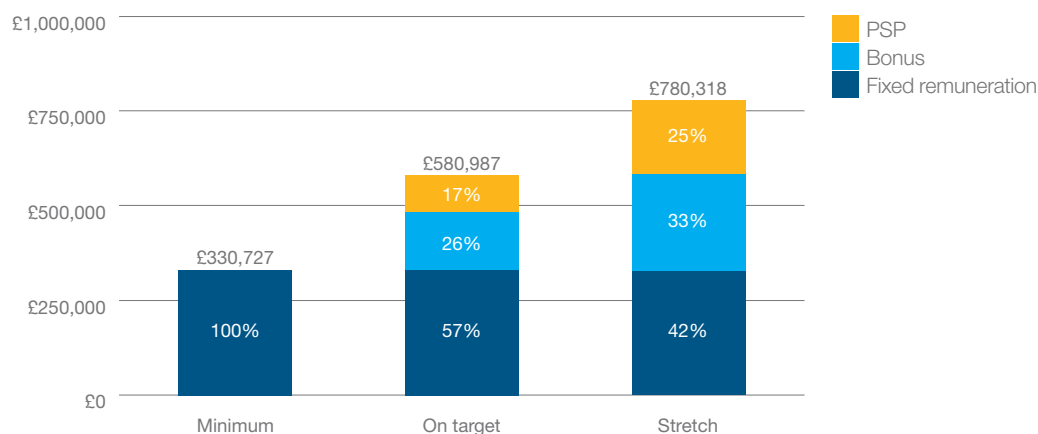
Expected value of the proposed annual remuneration package for Executive Directors

The following charts indicate the level of remuneration payable to Executive Directors in 2014 based on policy at 'minimum' remuneration, remuneration in line with 'on target' Company performance, and the maximum remuneration available.

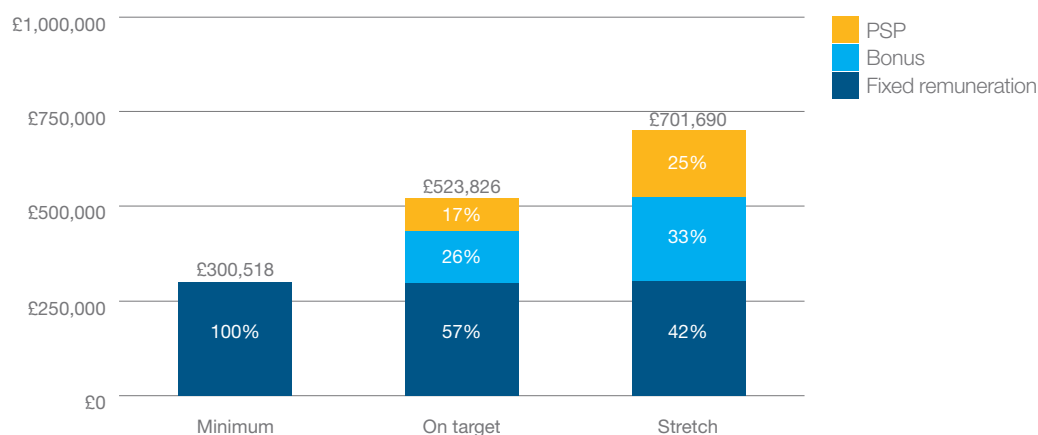
Chief Executive – Roger Whiteside



Executive Director – Richard Hutton



Executive Director – Raymond Reynolds



Assumptions used in the charts

Minimum remuneration assumes no award is earned under the annual bonus plan and no vesting is achieved under the PSP.

On target remuneration assumes 60% of the maximum is earned under the annual bonus plan and 50% vesting is achieved under the PSP.

Maximum remuneration assumes full vesting under the annual bonus plan and PSP.

Base salary levels as at 1 January 2014.

The value of taxable benefits is based on the cost of supplying those benefits (as disclosed) for the 52 weeks ended 28 December 2013.

Share price movement and dividend accrual have been excluded.

Directors' Remuneration Report

continued

Shareholder engagement

The Committee considers shareholder feedback received in relation to the AGM each year and otherwise from time to time. This feedback is then considered as part of the Company's annual review of remuneration policy.

The Committee engages proactively with shareholders, and takes their views seriously. When any material changes are made to the remuneration policy, the Committee Chairman will inform major shareholders of these in advance, and will offer to attend a meeting with those shareholders to discuss any concerns they may have.

During 2013 the Committee consulted with major investors in advance of policy changes proposed to be introduced in 2014.

Details of votes cast for and against the resolution to approve last year's Remuneration Report and matters discussed with shareholders during the year are provided in the annual report on remuneration

External appointments

Executive Directors may take up one Non-Executive Directorship outside of the Company subject to the Board's approval and provided that such an appointment is not likely to lead to a conflict of interest. It is recognised that this can support a Director's development and enhance experience as well as benefit the Company. Executive Directors will be entitled to retain the fees of such an appointment.

Annual report on remuneration

Implementation of our policy in 2014

The section below summarises the implementation of our remuneration policy for 2014.

Base salaries

The annual base salaries for the Executive Directors are:

Director	Salary as at 1 January 2013	Salary as at 1 January 2014	% Increase
Roger Whiteside	£487,500	£495,300	1.6%
Richard Hutton	£278,488	£282,944	1.6%
Raymond Reynolds	£248,496	£252,472	1.6%

Pension contribution

The pension contribution rates are:

Roger Whiteside	22.5% (cash in lieu)
Raymond Reynolds	14% (cash in lieu)
Richard Hutton	13%

Annual bonus

For 2014 the performance conditions will provide a strong link between bonus payments and our business strategy.

Bonus Metrics		
Profit	Sales	Strategic objectives
50% of total	20% of total	30% of total
This will be based on meeting and exceeding budget for the year.	Based on own shop like-for-like sales excluding any additional shops opened during the bonus year.	Detailed below

The strategic objectives for each bonus cycle will be based on measures which will provide a strong link to future value creation. For the 2014 bonus the three strategic objectives will be:

- (i) The successful execution of the 2014 shop refit programme – measured by refit cash return on investment;
- (ii) improving operational and supply chain efficiencies – measured by the achievement of cost reductions; and
- (iii) successfully progressing the introduction of our new IT systems platform – measured by the benefit delivered through the process and systems change project.

Sliding scales will be set where possible.

There will be an underpin to the sales and strategic objectives elements of the bonus whereby any payment under these elements may be scaled back (potentially to zero) at the discretion of the Committee, in the event that the profit performance for the year is judged to be running significantly below that required for the achievement of the long-term strategy.

The Committee has chosen not to disclose, in advance, the performance targets for the forthcoming year as these include items which the Committee considers to be commercially sensitive. Retrospective disclosure of the targets and performance against them will be disclosed in next year's annual report on remuneration.

2014 PSP Award

Performance conditions will be based on an equal split of two different financial measures, EPS and ROCE (for discrete parts of an award). For each award within the policy period targets will be set for each metric which reflect the strategic plan and business outlook over the respective performance period.*

For 2014 awards the Committee has considered the Company's business plan and the target ranges will be as follows:

The EPS performance condition will require average annual growth of RPI +1 per cent to +4 per cent over three years from the 2013 financial year end.

The ROCE condition will require average annual ROCE over the three year performance period (2014, 2015 and 2016) in the range 15.5 per cent to 17 per cent.

In both cases 25 per cent of an award will vest on achieving threshold performance and thereafter straight-line sliding scales will apply until stretch performance is achieved.

In order to improve alignment of interest between Executives and shareholders further, a holding period will be attached to vested PSP awards granted in the policy period, requiring the vested shares to be held (net of tax) for a further two years.

* EPS and ROCE are measured excluding exceptional items.

Executive Share Option Scheme

The Greggs plc 2004 Inland Revenue Approved Executive Share Option Scheme and the Greggs plc 2004 Executive Share Option Scheme will shortly expire, and shareholders will be asked at the AGM to be held on 1 May 2014 to approve the adoption of new schemes.

Non-Executive Directors' fees

The Chairman's fees for 2014 are £131,405.

The Non-Executive Directors are paid an annual base fee of £40,265 and additional responsibility fees of £5,986 for the role of SID or for chairing a Board Committee. Where the SID role is combined with the role of chairing a Committee then only one fee of £5,986 will be paid.

Details of the fees being paid to Non-Executive Directors in 2014 are set out below:

Ian Durant	£131,405	Chairman
Julie Baddeley	£46,251	SID
Iain Ferguson	£46,251	Chairman of the Remuneration Committee
Allison Kirkby	£46,251	Chair of the Audit Committee
Helena Ganczakowski	£40,265	Non-Executive Director

Directors' Remuneration Report

continued

Remuneration payable for 2013 for each Executive Director (Audited)

The following table presents the remuneration payable for 2013 (showing the equivalent figures for 2012) for the Executive Directors.

	Salary £	Pension contribution £	Taxable benefits £	Annual bonus (inc profit share) £	Long-term incentives £	Total remuneration £
Kennedy McMeikan*						
2013	90,846	17,293	3,777	–	–	111,916
2012	469,397	67,935^^	21,656	76,042	–	635,030
Roger Whiteside**						
2013	471,059^	100,090^^	347	111,719	–	683,215
2012	–	–	–	–	–	–
Richard Hutton						
2013	278,488	52,913	11,002	50,128	–	392,531
2012	273,027	51,875	11,460	44,230	–	380,592
Raymond Reynolds						
2013	248,496	30,571^^	12,716	44,729	–	336,512
2012	243,624	29,971^^	12,548	30,697	–	316,840

* Resigned December 2012 and ceased employment with the Company on 8 March 2013.

** Appointed as Chief Executive on 4 February 2013.

^ Includes £18,081 home to work travel allowance.

^^ Includes salary paid in lieu of pension contributions.

Pension contributions included contributions to the Company's defined contribution scheme and salary paid in lieu of pension contributions.

Fees payable for each Non-Executive Director (Audited)

	Fees £
Derek Netherton*	
2013	48,584
2012	126,800
Ian Durant**	
2013	98,175
2012	44,630
Julie Baddeley	
2013	45,523
2012	44,630
Roger Whiteside***	
2013	3,302
2012	38,854
Iain Ferguson	
2013	45,523
2012	44,630
Allison Kirkby****	
2013	40,866
2012	–

* Resigned as Chairman on 15 May 2013.

** Chairman from 15 May 2013.

*** Resigned as Non-Executive Director on 3 February 2013.

**** Appointed 30 January 2013 and appointed Chair of Audit Committee 15 May 2013.

No detailed disclosure has been provided for Non-Executive Directors other than that relating to their fees, as this is the only form of remuneration they receive.

Annual bonus payments to Executive Directors

The table below outlines the bonus payments to Executive Directors in respect of 2013.

Measure	Strategic objective	Weighting	Entry	Target	Stretch	Actual	% of maximum	
All Executive Directors								
Profit	Profit before tax excluding exceptional items	To deliver profit target	60%	£50.8m	£51.8m	£55.8m	£41.3m	0%
Sales	Total sales	To deliver sales target	20%	£757m	£787m	£802.5m	£762m	0%
Roger Whiteside								
Personal	*See below		20%	n/a	n/a	n/a	£111,719 [^]	20%
Richard Hutton								
Personal	*See below		20%	n/a	n/a	n/a	£50,128	20%
Raymond Reynolds								
Personal	*See below		20%	n/a	n/a	n/a	£44,729	20%
Total weighting based on balance scorecard			100%					
Bonus achieved for 2013							as % of maximum	
Roger Whiteside							20%	
Richard Hutton							20%	
Raymond Reynolds							20%	

* Personal objectives:

- Completion of the Strategic Review and five-year plan with a focus on bakery food-on-the-go and the four pillars of activity
- in year progress on like-for-like sales growth culminating in a strong fourth quarter performance; and
- good progress on step change plans.

[^] Pro-rated from 4 February 2013.

None of the bonuses awarded have been deferred.

Vested PSP awards

The PSP award granted in 2011 measured EPS performance by reference to the three financial years to 28 December 2013 and TSR performance by reference to the three years from date of grant. The performance targets that were set, together with the performance delivered, are set out in the table below.

Metric	Condition	Threshold target	Stretch target	Assessment	% Vesting
Earnings per share (50%)	Normalised EPS growth of RPI +3% p.a. (12.5% vesting) to RPI + 8% p.a. (50% vesting) over three financial years.	RPI +3%	RPI +8%	RPI -9.8%	0%
Total shareholder return (50%)	TSR against a peer group of 24 companies 12.5% vesting for median performance and 50% vesting for upper quartile performance or above. TSR measured over three financial years based on a one month average share price at the start and end of the performance period.	50th percentile (Median)	75th percentile (upper quartile)	17th percentile*	0%
Total vesting					0%

* The estimated value of the vested shares is based on the average share price during the three-month period from 1 October 2013 to 27 December 2013 of £4.397. This award will be measured on the third anniversary of grant, subject to continued employment, however it is anticipated that none will vest in 2014.

Directors' Remuneration Report

continued

Legacy defined benefit pension scheme (Audited)

The following table sets out the change in each Director's accrued pension in the Company's defined benefit pension scheme during the year and his accrued benefits in the scheme at the yearend:

Executive Director	Date of birth	Date service commenced	Accrued annual pension entitlement as at 30 December 2012 £	Accrued annual pension entitlement as at 28 December 2013 £	Increase in accrued pension entitlement for the year £	Increase in accrued pension entitlement for the year net of inflation of 1.2% £	Transfer value of increase in accrued pension entitlement for the year £
Richard Hutton	3/6/68	1/1/98	18,522	18,522	–	–	–
Raymond Reynolds	4/11/59	1/12/86	69,535	69,535	–	–	–

Note 1: The pension entitlement shown is that which would be paid annually on retirement based on service to the end of the year, but excluding any statutory increases which would be due after the year end.

Note 2: The inflation rate of 1.2% shown in the table above is that published by the Secretary of State for Social Security in accordance with Schedule 3 of the Pensions Schemes Act 1993.

	Cash equivalent transfer value as at 29 December 2012 £	Cash equivalent transfer value as at 28 December 2013 £	Increase in the cash equivalent transfer value since 30 December 2012 £
Richard Hutton	238,650	223,821	–
Raymond Reynolds	1,176,229	1,130,193	–

Note: Cash equivalent transfer values have been calculated in accordance with Actuaries Guidance Note GN11 and the decrease is stated net of contributions made by the Director. The transfer values disclosed above do not represent a sum paid or payable to the individual Director. Instead they represent a potential liability of the pension scheme.

The main features of the defined benefit scheme are:

- Pension at normal retirement age of 1/60th of member's final pensionable salary for each complete year of service and a proportionate amount for each additional complete month of service from the date of joining the scheme until 5 April 2008 when the scheme was closed to future accrual;
- choice of giving up part of the pension entitlement in exchange for a tax-free cash sum subject to a limit of 25% of the total value of the member's benefits under the scheme;
- pension payable in the event of ill health;
- spouse's pension on death; and
- normal retirement at age 65.

Performance Share Plan options awarded during 2013

Executive	Type of award	Basis of award granted	Share price at date of grant (27 March 2013)	Number of shares over which award was granted	Face value of award	% of face value that would vest at threshold performance	Vesting determined by performance over
Roger Whiteside	Nil cost option	120% of salary	£4.735	113,252	£536,248	25%	Three financial years to 31 December 2016 (EPS) and three years from date of grant (TSR)
Richard Hutton	Nil cost option	70% of salary	£4.735	41,170	£194,940	25%	
Raymond Reynolds	Nil cost option	70% of salary	£4.735	36,736	£173,945	25%	

Executive Director share options (Audited)

The following table sets out details of the PSP, executive and savings related share options (all of which were granted at a £nil cost to the Executive Director concerned) held by, or granted to, each Executive Director during the year:

	At 30 December 2012 Number	Granted Number	Exercised Number	Lapsed Number	At 28 December 2013 Number	Exercise price	Date of grant	Market price of each share at date of grant	Date from which exercisable	Expiry date	Scheme
Kennedy McMeikan	62,640	–	25,270 [^]	37,370	–	£3.56	Apr 09		Apr 12	Apr 19	Exec
	276	–	–	276	–	£3.54	Sep 09		Nov 12	Apr 13	SAYE
	374	–	–	374	–	£4.53	Apr 11		Jun 14	Nov 14	SAYE
	423	–	–	423	–	£4.68	Apr 12		Jun 15	Nov 15	SAYE
	63,713	–	25,270	38,443							
Roger Whiteside	–	113,252	–	–	113,252	£nil	Mar 13	£4.735	Mar 16	Mar 23	PSP
Richard Hutton	26,750	–	–	–	26,750*	£4.07	Aug 06		Aug 09	Aug 16	Exec
	62,640	–	–	–	62,640*	£3.56	Apr 09		Apr 12	Apr 19	Exec
	37,173	–	–	37,173	–	£nil	Apr 10	£4.896	Apr 13	Apr 20	PSP
	35,838	–	–	–	35,838	£nil	Mar 11	£5.190	Mar 14	Mar 21	PSP
	36,334	–	–	–	36,334	£nil	Apr 12	£5.260	Apr 15	Apr 22	PSP
	–	41,170	–	–	41,170	£nil	Mar 13	£4.735	Mar 16	Mar 23	PSP
	374	–	–	–	374	£4.53	Apr 11		Jun 14	Nov 14	SAYE
	423	–	–	–	423	£4.68	Apr 12		Jun 15	Nov 15	SAYE
	–	400	–	–	400	£4.14	Apr 13		Jun 16	Nov 16	SAYE
	199,532	41,570	–	37,173	203,929						
Raymond Reynolds	26,750	–	–	–	26,750*	£4.07	Aug 06		Aug 09	Aug 16	Exec
	62,640	–	–	–	62,640*	£3.56	Apr 09		Apr 12	Apr 19	Exec
	33,169	–	–	33,169	–	£nil	Apr 10	£4.896	Apr 13	Apr 20	PSP
	31,979	–	–	–	31,979	£nil	Mar 11	£5.190	Mar 14	Mar 21	PSP
	32,421	–	–	–	32,421	£nil	Apr 12	£5.260	Apr 15	Apr 22	PSP
	–	36,736	–	–	36,736	£nil	Mar 13	£4.735	Mar 16	Mar 23	PSP
	374	–	–	–	374	£4.53	Apr 11		Jun 14	Nov 14	SAYE
	423	–	–	–	423	£4.68	Apr 12		Jun 15	Nov 15	SAYE
	–	400	–	–	400	£4.14	Apr 13		Jun 16	Nov 16	SAYE
	187,756	37,136	–	33,169	191,723						

* Performance conditions have been achieved and the shares remain exercisable.

[^] The market value on the date of exercise was £4.95 and the resultant gain on exercise was £35,125.

Options granted under the all employee SAYE scheme are not subject to performance conditions.

The mid-market price of ordinary shares in the Company as at 28 December 2013 was £4.39. The highest and lowest mid-market prices of ordinary shares during the financial year were £5.235 and £3.921 respectively.

Directors' shareholding and share interests (Audited)

The Company's share retention guidelines require the Chief Executive to build up a shareholding of 150% and other Executive Directors to build up a shareholding of 100% of their respective base salary in a five-year period. This can be achieved by holding vested shares via the PSP and/or deferred annual bonus.

Directors' Remuneration Report

continued

Details of the shareholdings of each Executive Director as at 28 December 2013 and their interests in shares are detailed below with the percentage holding calculated using the share price at that date:

Director	Beneficially owned at 28 December 2013	Beneficially owned at 26 February 2014	Outstanding PSP awards	Outstanding deferred bonus awards	Outstanding option awards	% shareholding guideline achieved at 28 December 2013
Roger Whiteside*	72,253	72,253	113,252	–	–	65%
Richard Hutton	55,413	55,413	113,342	–	89,390	87%
Raymond Reynolds	52,850	52,850	101,136	–	89,390	93%
Ian Durant	11,700	11,700	–	–	–	n/a
Iain Ferguson	15,000	15,000	–	–	–	n/a
Julie Baddeley	6,000	6,000	–	–	–	n/a
Allison Kirkby	600	600	–	–	–	n/a

* As disclosed in the previous Directors' Remuneration Report, 60,000 of these shares were granted to Roger Whiteside as a transitional bonus in compensation for his loss of bonus from his previous employer. The award of half of the shares is deferred for two years and the other half for three years from date of award but is not subject to performance conditions other than continuity of employment and not having resigned or been given notice of termination when the respective award is due to vest. This award will be subject to tax and NI in respect of the award of the shares. The value of dividends paid on these deferred bonus shares is rolled up and will be paid on vesting.

Exit payments or payments to past Directors (Audited)

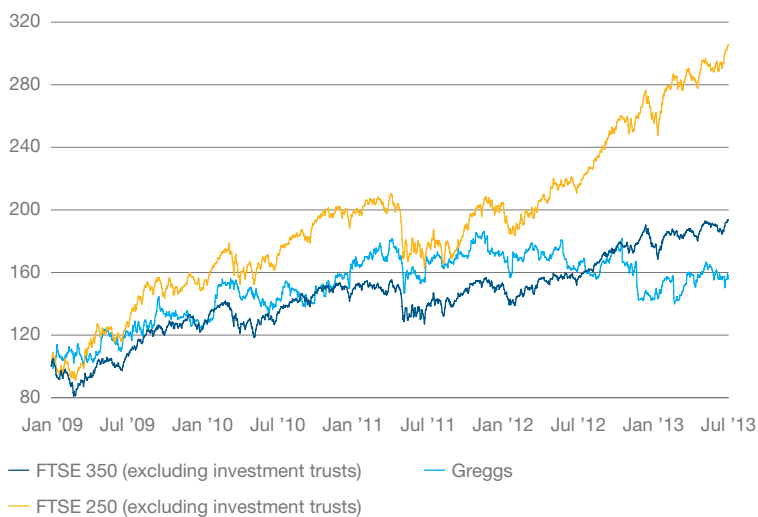
There were no payments to past Directors in the 52 weeks ended 28 December 2013. Kennedy McMeikan left the business on 8 March 2013. However, his pay was processed in line with his contractual terms and conditions. No payments for compensation or loss of office were paid to, or receivable by, any Director.

External Directorships

Roger Whiteside held an Executive Director role with Punch Taverns plc in 2013, from which he resigned prior to his appointment as Chief Executive of Greggs plc on 4 February 2013.

Performance graph

The graph below shows a comparison of the total shareholder return for the Company's shares for each of the last five financial years against the total shareholder return for the companies comprised in the FTSE Mid 250 Index (excluding Investment Trusts) and the FTSE 350 (excluding Investment Trusts).



These indices were chosen for this comparison because they include companies of broadly similar size to the Company.

Remuneration outcomes for Chief Executive over last five years

The table below shows the total remuneration figure for the Chief Executive over the same five-year period as the graph on page 60. The total remuneration figure includes the annual bonus, pension and PSP/option awards which vested based on performance in those years.

	2013	2012	2011	2010	2009
Total remuneration (£)	£727,281	£635,030	£707,245	£767,397	£646,313
Bonus (% of maximum potential)	20%	18%	38.6%	56.6%	30%
PSP/Options (% maximum potential)	n/a	78.3%	0%	n/a	n/a

Percentage change in remuneration of Director undertaking role of Chief Executive

The table below sets out the percentage change in remuneration for the Chief Executive compared to the wider workforce. For this purpose, the wider workforce is defined as, all full-time head office management employees as they too are entitled to receive benefits and annual bonus awards.

	% change from 2012 to 2013
Chief Executive*	
– salary	3.85%
– benefits	(7.40%)
– Performance Pay	60.27%
Average per employee	
– salary	1.27%
– benefits**	(1.06%)
– Performance Pay	(25.00%)

* Roger Whiteside was appointed Chief Executive on 4 February 2013 – all figures relating to Chief Executive remuneration in 2013 are full year equivalents.

** The average employee benefits figure is based on tax year 2011/12 for 2012 and tax year 2012/13 for 2013.

Relative importance of spend on pay

The table below shows the expenditure and percentage change in the overall spend on staff costs compared to other key financial indicators.

	2013 £m	2012 £m	% increase
Staff costs	300.8	290.2	3.65%
Dividends	19.6	19.4	1.03%
Retained profit (excluding exceptional items)	30.9	38.7	(20.2%)
Tax	10.3	12.2	(15.6%)

Composition of the Committee

The following Non-Executive Directors were members of the Committee during 2013:

Member	Date of appointment from
Iain Ferguson (Chairman since 1 January 2012)	31 March 2009
Julie Baddeley	1 March 2005
Ian Durant (stepped down 15 May 2013)	5 October 2011
Roger Whiteside (stepped down 3 February 2013)	17 March 2008
Allison Kirkby	30 January 2013

Directors' Remuneration Report

continued

Remuneration advice

The Chief Executive along with Jonathan Jowett (Company Secretary and General Counsel) and Roisin Currie (People Director) are normally invited to attend the Committee meetings in order to provide advice and support to the Committee. PwC supported the Committee with market advice in the first half of the year. Following a tender process New Bridge Street (NBS) were appointed to support the Committee with additional work during 2013, predominantly around the market review of our current bonus and PSP scheme for Directors. Aon, the parent company of NBS, provided pension valuation services to the Company during the year.

NBS is a signatory to the Remuneration Consultants' Code of Conduct and adheres to the Voluntary Code of Conduct in relation to executive remuneration consulting in the UK. The Committee has reviewed the operating processes in place at NBS and is satisfied that the advice it receives is objective and independent.

Fees paid to PwC during the year were £8,500. Fees paid to NBS during the year were £29,000.

Approval by Shareholders

At last year's AGM, the Directors' Remuneration Report received the following votes from shareholders:

	Total number of votes	% of votes cast
For	52,405,397	92.2%
Against	4,430,696	7.8%
Total votes cast (excluding votes withheld)	56,836,093	100%
Votes withheld	964,649	
Total votes cast (including votes withheld)	57,800,742	

Votes withheld are not included in the final proxy figures as they are not recognised as a vote in law.

At the AGM of the Company to be held on 1 May 2014, two resolutions approving the policy report and annual report on remuneration will be proposed as ordinary resolutions.

This report was approved by the Board on 26 February 2014.

Signed on behalf of the Board

Iain Ferguson CBE

Chairman of Remuneration Committee

26 February 2014

Statement of Directors' responsibilities in respect of the Annual Report and Accounts

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

Company law requires the Directors to prepare Group and Parent Company accounts for each financial year. Under that law they are required to prepare the Group accounts in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the Parent Company accounts on the same basis.

Under company law the Directors must not approve the accounts 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 accounts, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business.

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 accounts comply with the Companies Act 2006. They 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, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement 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.

The Directors confirm that to the best of their knowledge:

- The accounts, prepared in accordance with the applicable set of accounting standards, give a true and fair view of assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole; and
- the Directors' Report and Strategic Report, which incorporates the Chairman's Statement, the Chief Executive's Report, the Financial Review and the Social Responsibility statement include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Roger Whiteside
Chief Executive
26 February 2014

Richard Hutton
Finance Director

Independent Auditor's Report to the Members of Greggs plc

Opinions and conclusions arising from our audit

1 Our opinion on the accounts is unmodified

We have audited the accounts of Greggs plc for the 52 weeks ended 28 December 2013 set out on pages 67 to 97.

In our opinion:

- The accounts give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 28 December 2013 and of the Group's profit for the year then ended;
- the Group accounts 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 accounts have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the accounts have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group accounts, Article 4 of the IAS Regulation.

2 Our assessment of risks of material misstatement

In arriving at our audit opinion above on the accounts the risks of material misstatement that had the greatest effect on our audit were as follows:

Impairment of property, plant and equipment (charge in year £5.3m, closing net book value £268m)

Refer to page 44 (Audit Committee statement), pages 73 and 75 (accounting policy) and pages 79 and 84 (financial disclosures).

The risk –

The economic climate and levels of competition remain challenging for the Group. The Group has completed a Strategic Review, details of which were announced in the half year statement, and as a result has decided to close or curtail some of its operations. There is therefore a risk that the impairment charge may be misstated. Determining the level of impairment involves forecasting and discounting future cash flows and estimation of recoverable amounts which are inherently uncertain. This is one of the key judgemental areas that our audit has concentrated on.

Our response –

Our audit procedures included, among others, considering the impairment risk associated with the following different types of asset:

- In respect of assets within shops which continue to trade we critically assessed and challenged the Group's impairment model. This included consideration of the discounted cashflow forecasts on a shop by shop basis and assessing the cashflow forecasts against the historical performance of those shops and against the Group's budgets. We assessed the appropriateness of the discount rate including benchmarked it against similar national retailers. We also recalculated the impairment model to assess the sensitivity of the key assumptions including growth rate and discount rate;
- in respect of fixtures and fittings within shops which had either been closed or were identified by the Group for closure as a result of the Strategic Review, we critically assessed the Group's identification of assets that were obsolete, using our experience of the Group and review of historical experience, whether such assets have any recoverable value;
- in respect of land and buildings which had been identified and announced in the half year statement as surplus to requirements, or where development plans had been aborted, we considered whether such assets had been written off or impaired where necessary down to their recoverable amounts. We critically challenged the Group's assumptions in relation to recoverable amounts with reference to external third party valuations obtained by the Group. We considered the qualifications and independence of the valuers and the movement in market values of property in relevant locations; and
- we have also considered the adequacy of the Group's disclosures about the degree of estimation involved in determining the amount of impairment and the sensitivity to key assumptions involved.

Provisions (charge in year £4.4m, provision in balance sheet £5.4m)

Refer to page 44 (Audit Committee statement), pages 73 and 76 (accounting policy) and pages 79 and 95 (financial disclosures).

The risk –

The decision to close shops and accelerate certain shop closures, made as a result of the Strategic Review, results in an increased risk of onerous leases. Determining the level of onerous lease provision involves forecasting and discounting future cash flows and estimation of the length of time and value at which lease arrangements can be exited, both of which are inherently uncertain.

This is one of the key judgemental areas that our audit has concentrated on.

Our response –

Our audit procedures in respect of onerous lease provisions included, among others:

- In respect of the provisions we critically assessed whether provisions identified by the Group met the criteria for recognition as well as the completeness of provisions for all leases where the unavoidable costs of meeting the lease obligation exceed the economic benefit expected to be received under the lease;
- for shops which were closed, or for which the Group has announced in the half year statement the decision to exit the lease prior to the end of the lease term, we critically challenged the Group's estimate of total costs to exit the lease taking into account assumptions of the time it would take to exit, the level of incentives to be paid and other costs to exit such as legal fees or dilapidation costs. We considered the most recent expectation of the relevant local in-house Group property surveyor responsible for each shop, supported by third party evidence including offers made, communications with third party agents, or contracts agreed to surrender or sublease properties post year end. We also considered the quality of location of each property as well as the historical experience of the Group at exiting similar properties and the costs involved in doing so;
- we challenged the Group's assumptions relating to provisions for shops still trading. This included consideration of the discounted cashflow forecasts on a shop by shop basis and assessing the cashflow forecasts against the historical performance of those shops and against the Group's budgets. We assessed the appropriateness of the discount rate including benchmarking it against similar national retailers; and
- we have also considered the adequacy of the Group's disclosures about the degree of estimation involved in arriving at the provisions and the sensitivity to key assumptions involved.

3 Our application of materiality and an overview of the scope of our audit

The materiality for the accounts as a whole was set at £2.2 million. This has been determined with reference to a benchmark of Group profit before tax which we consider to be one of the principal considerations for members of the Company in assessing the financial performance of the Group. Materiality represents 6.6 per cent of Group profit before tax and 5.3 per cent of Group profit before tax excluding exceptional items as disclosed on the face of the consolidated income statement.

We agreed with the Audit Committee to report to it all corrected and uncorrected misstatements we identified through our audit with a value in excess of £110,000, in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

The Group audit team performed the audit of the Group as if it was a single aggregated set of accounts. The audit was performed using the materiality levels set out above and covered 100 per cent of total Group revenue, Group profit before tax and total Group assets.

4 Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

- The part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and Directors' Report for the financial year for which the accounts are prepared is consistent with the accounts.

5 We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the accounts, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- We have identified material inconsistencies between the knowledge we acquired during our audit and the Directors' statement that they consider that the annual report and accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy; or
- the Audit Committee Report does not appropriately address matters communicated by us to the Audit Committee.

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 accounts and the part of the Directors' Remuneration Report to be audited 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.

Independent Auditor's Report to the members of Greggs plc

continued

Under the Listing Rules we are required to review:

- The Directors' statement, set out on page 42, in relation to going concern; and
- the part of the Corporate Governance Statement on page 39 relating to the Company's compliance with the nine provisions of the 2010 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Scope of report and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 63, the Directors are responsible for the preparation of the accounts and for being satisfied that they give a true and fair view. A description of the scope of an audit of accounts is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2013a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Mick Thompson

(Senior Statutory Auditor)

for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants

Quayside House

110 Quayside

Newcastle upon Tyne

NE1 3DX

26 February 2014

Consolidated income statement

for the 52 weeks ended 28 December 2013
(2012: 52 weeks ended 29 December 2012)

	Note	2013 Excluding exceptional items £'000	2013 Exceptional items (see Note 4) £'000	2013 Total £'000	2012 Excluding exceptional items (restated) £'000	2012 Exceptional items (see Note 4) £'000	2012 Total (restated) £'000
Revenue	1	762,379	–	762,379	734,502	–	734,502
Cost of sales		(305,914)	(1,684)	(307,598)	(287,193)	1,445	(285,748)
Gross profit		456,465	(1,684)	454,781	447,309	1,445	448,754
Distribution and selling costs		(378,047)	(6,453)	(384,500)	(362,067)	–	(362,067)
Administrative expenses		(36,923)	–	(36,923)	(33,947)	–	(33,947)
Operating profit		41,495	(8,137)	33,358	51,295	1,445	52,740
Finance expense	6	(206)	–	(206)	(377)	–	(377)
Profit before tax	3-6	41,289	(8,137)	33,152	50,918	1,445	52,363
Income tax	8	(10,346)	1,383	(8,963)	(12,206)	(344)	(12,550)
Profit for the financial year attributable to equity holders of the Parent		30,943	(6,754)	24,189	38,712	1,101	39,813
Basic earnings per share	9	30.8p	(6.7p)	24.1p	38.9p	1.1p	40.0p
Diluted earnings per share	9	30.6p	(6.7p)	23.9p	38.3p	1.1p	39.4p

Consolidated statement of comprehensive income

for the 52 weeks ended 28 December 2013
(2012: 52 weeks ended 29 December 2012)

	Note	2013 £'000	2012 (restated) £'000
Profit for the financial year		24,189	39,813
Other comprehensive income			
<i>Items that will not be recycled to profit and loss:</i>			
Remeasurements on defined benefit pension plans	20	4,293	5,236
Tax on items taken directly to equity	8	(859)	(1,204)
Other comprehensive income for the financial year, net of income tax		3,434	4,032
Total comprehensive income for the financial year		27,623	43,845

Balance sheets
at 28 December 2013
(2012: 29 December 2012)

	Note	Group		Parent Company	
		2013 £'000	2012 £'000	2013 £'000	2012 £'000
ASSETS					
Non-current assets					
Intangible assets	10	1,012	144	1,012	144
Property, plant and equipment	11	267,797	264,257	268,390	264,850
Investments	12	–	–	4,987	4,987
Defined benefit pension asset	20	55	–	55	–
		268,864	264,401	274,444	269,981
Current assets					
Inventories	13	15,405	17,658	15,405	17,658
Trade and other receivables	14	25,012	26,917	25,012	26,917
Cash and cash equivalents	15	21,572	19,381	21,572	19,381
Other investments	12	3,000	–	3,000	–
		64,989	63,956	64,989	63,956
Total assets		333,853	328,357	339,433	333,937
LIABILITIES					
Current liabilities					
Trade and other payables	16	(72,203)	(71,955)	(80,010)	(79,762)
Current tax liabilities	17	(5,564)	(7,101)	(5,564)	(7,101)
Provisions	21	(2,949)	(359)	(2,949)	(359)
		(80,716)	(79,415)	(88,523)	(87,222)
Non-current liabilities					
Other payables	18	(7,040)	(7,502)	(7,040)	(7,502)
Defined benefit pension liability	20	–	(4,056)	–	(4,056)
Deferred tax liability	19	(7,508)	(9,199)	(6,981)	(8,566)
Long-term provisions	21	(2,412)	(1,395)	(2,412)	(1,395)
		(16,960)	(22,152)	(16,433)	(21,519)
Total liabilities		(97,676)	(101,567)	(104,956)	(108,741)
Net assets		236,177	226,790	234,477	225,196
EQUITY					
Capital and reserves					
Issued capital	22	2,023	2,023	2,023	2,023
Share premium account		13,533	13,533	13,533	13,533
Capital redemption reserve	22	416	416	416	416
Retained earnings		220,205	210,818	218,505	209,224
Total equity attributable to equity holders of the Parent		236,177	226,790	234,477	225,196

The accounts on pages 67 to 97 were approved by the Board of Directors on 26 February 2014 and were signed on its behalf by:

Roger Whiteside
Richard Hutton

Company Registered Number 502851

Statements of changes in equity for the 52 weeks ended 28 December 2013 (2012: 52 weeks ended 29 December 2012)

Group

52 weeks ended 29 December 2012

	Note	Attributable to equity holders of the Company				Total (restated) £'000
		Issued capital £'000	Share premium £'000	Capital redemption reserve £'000	Retained earnings (restated) £'000	
Balance at 1 January 2012		2,023	13,533	416	182,411	198,383
Total comprehensive income for the year						
Profit for the financial year		–	–	–	39,813	39,813
Other comprehensive income		–	–	–	4,032	4,032
Total comprehensive income for the year		–	–	–	43,845	43,845
Transactions with owners, recorded directly in equity						
Sale of own shares		–	–	–	3,624	3,624
Share-based payment transactions	20	–	–	–	346	346
Dividends to equity holders	22	–	–	–	(19,406)	(19,406)
Tax items taken directly to reserves	8	–	–	–	(2)	(2)
Total transactions with owners		–	–	–	(15,438)	(15,438)
Balance at 29 December 2012		2,023	13,533	416	210,818	226,790

Group

52 weeks ended 28 December 2013

	Note	Attributable to equity holders of the Company				Total £'000
		Issued capital £'000	Share premium £'000	Capital redemption reserve £'000	Retained earnings £'000	
Balance at 30 December 2012		2,023	13,533	416	210,818	226,790
Total comprehensive income for the year						
Profit for the financial year		–	–	–	24,189	24,189
Other comprehensive income		–	–	–	3,434	3,434
Total comprehensive income for the year		–	–	–	27,623	27,623
Transactions with owners, recorded directly in equity						
Sale of own shares		–	–	–	860	860
Share-based payment transactions	20	–	–	–	592	592
Dividends to equity holders	22	–	–	–	(19,582)	(19,582)
Tax items taken directly to reserves	8	–	–	–	(106)	(106)
Total transactions with owners		–	–	–	(18,236)	(18,236)
Balance at 28 December 2013		2,023	13,533	416	220,205	236,177

Statements of changes in equity
for the 52 weeks ended 28 December 2013
(2012: 52 weeks ended 29 December 2012)
continued

Parent Company

52 weeks ended 29 December 2012

	Note	Attributable to equity holders of the Company				Total (restated) £'000
		Issued capital £'000	Share premium £'000	Capital redemption reserve £'000	Retained earnings (restated) £'000	
Balance at 1 January 2012		2,023	13,533	416	180,843	196,815
Total comprehensive income for the year						
Profit for the financial year	7	–	–	–	39,787	39,787
Other comprehensive income		–	–	–	4,032	4,032
Total comprehensive income for the year		–	–	–	43,819	43,819
Transactions with owners, recorded directly in equity						
Sale of own shares		–	–	–	3,624	3,624
Share-based payment transactions	20	–	–	–	346	346
Dividends to equity holders	22	–	–	–	(19,406)	(19,406)
Tax items taken directly to reserves	8	–	–	–	(2)	(2)
Total transactions with owners		–	–	–	(15,438)	(15,438)
Balance at 29 December 2012		2,023	13,533	416	209,224	225,196

Parent Company

52 weeks ended 28 December 2013

	Note	Attributable to equity holders of the Company				Total £'000
		Issued capital £'000	Share premium £'000	Capital redemption reserve £'000	Retained earnings £'000	
Balance at 30 December 2012		2,023	13,533	416	209,224	225,196
Total comprehensive income for the year						
Profit for the financial year	7	–	–	–	24,083	24,083
Other comprehensive income		–	–	–	3,434	3,434
Total comprehensive income for the year		–	–	–	27,517	27,517
Transactions with owners, recorded directly in equity						
Sale of own shares		–	–	–	860	860
Share-based payment transactions	20	–	–	–	592	592
Dividends to equity holders	22	–	–	–	(19,582)	(19,582)
Tax items taken directly to reserves	8	–	–	–	(106)	(106)
Total transactions with owners		–	–	–	(18,236)	(18,236)
Balance at 28 December 2013		2,023	13,533	416	218,505	234,477

Statements of cashflows

for the 52 weeks ended 28 December 2013
(2012: 52 weeks ended 29 December 2012)

	Note	Group		Parent Company	
		2013 £'000	2012 £'000	2013 £'000	2012 £'000
Operating activities					
Cash generated from operations (see below)		82,493	70,013	82,493	70,013
Income tax paid		(13,157)	(13,435)	(13,157)	(13,435)
Net cash inflow from operating activities		69,336	56,578	69,336	56,578
Investing activities					
Acquisition of property, plant and equipment		(47,808)	(46,035)	(47,808)	(46,035)
Acquisition of intangible assets		(785)	–	(785)	–
Proceeds from sale of property, plant and equipment		3,194	4,563	3,194	4,563
Interest (paid)/received	6	(24)	49	(24)	49
(Acquisition)/redemption of other investments	12	(3,000)	500	(3,000)	500
Net cash outflow from investing activities		(48,423)	(40,923)	(48,423)	(40,923)
Financing activities					
Sale of own shares		860	3,624	860	3,624
Dividends paid	22	(19,582)	(19,406)	(19,582)	(19,406)
Net cash outflow from financing activities		(18,722)	(15,782)	(18,722)	(15,782)
Net increase/(decrease) in cash and cash equivalents		2,191	(127)	2,191	(127)
Cash and cash equivalents at the start of the year	15	19,381	19,508	19,381	19,508
Cash and cash equivalents at the end of the year	15	21,572	19,381	21,572	19,381

Cash flow statement – cash generated from operations

	Note	2013 £'000	2012 (restated) £'000	2013 £'000	2012 (restated) £'000
Profit for the financial year		24,189	39,813	24,083	39,787
Amortisation	10	161	145	161	145
Depreciation	11	33,225	32,298	33,225	32,298
Impairment	11	5,252	544	5,252	544
Loss/(profit) on sale of property, plant and equipment		1,390	(1,475)	1,390	(1,475)
Release of government grants		(470)	(471)	(470)	(471)
Share-based payment expenses	20	592	346	592	346
Finance expense	6	206	377	206	377
Income tax expense	8	8,963	12,550	9,069	12,576
Decrease/(increase) in inventories		2,253	(3,384)	2,253	(3,384)
Decrease/(increase) in receivables		1,905	(5,752)	1,905	(5,752)
Increase/(decrease) in payables		1,220	(3,233)	1,220	(3,233)
Increase/(decrease) in provisions		3,607	(1,745)	3,607	(1,745)
Cash from operating activities		82,493	70,013	82,493	70,013

Notes to the consolidated accounts

for the 52 weeks ended 28 December 2013

(2012: 52 weeks ended 29 December 2012)

Significant accounting policies

Greggs plc ('the Company') is a company incorporated and domiciled in the UK. The Group accounts consolidate those of the Company and its subsidiaries (together referred to as the 'Group'). The Parent Company accounts present information about the Company as a separate entity and not about its Group.

The accounts were authorised for issue by the Directors on 26 February 2014.

(a) Statement of compliance

Both the Parent Company accounts and the Group accounts have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ('adopted IFRSs'), IFRIC interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. On publishing the Parent Company accounts here together with the Group accounts, the Company is taking advantage of the exemption in s408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these approved accounts.

(b) Basis of preparation

The accounts are presented in pounds sterling, rounded to the nearest thousand, and are prepared on the historical cost basis except the defined benefit pension asset/liability, which is recognised as plan assets less the present value of the defined benefit obligation.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Directors' Report and Strategic Report on pages 2 to 62. The financial position of the Group, its cash flows and liquidity position are described in the Financial Review on pages 20 and 21. In addition Note 2 to the accounts includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The Directors have reviewed the Company's operational and investment plans for the foreseeable future along with the principal risks and uncertainties that could affect these plans or threaten its liquidity. The key factors likely to affect future performance and the Company's exposure to risks are set out on pages 24 and 25 of the Strategic Report. In addition the Financial Review on pages 20 and 21 sets out the Company's net cash position and continued strong cash generation.

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 preparing the annual report and accounts.

The Group chose not to restate business combinations prior to the IFRS transition date (1 January 2004), as no significant acquisitions had taken place during the previous ten years. The Group's policy up to and including 1997 was to eliminate goodwill arising upon acquisitions against reserves. Under IFRS 1 and IFRS 3, such goodwill remains eliminated against reserves.

The accounting policies set out below have been applied consistently throughout the Group and to all years presented in these consolidated accounts and are unchanged from previous years with the exception of:

- (i) The policy on defined benefit pension schemes which has been amended following the adoption of IAS 19 (Revised) (see accounting policy (o) (ii) below);
- (ii) a policy for dilapidation provisions had been adopted (see accounting policy (p) (iii) below); and
- (iii) the adoption of the following standards, amendments and interpretations which became effective during the year:
 - IFRS 13 'Fair Value Measurement'
 - IAS 19 'Employee Benefits' (Revised)
 - Amendments to IFRS 7 'Disclosures – Offsetting Financial Assets & Financial Liabilities'
 - Amendment to IAS 1 'Presentation of Financial Statements'

Except for IAS 19 (Revised), the adoption of the above has not had a significant impact on the Group's profit for the year or equity.

The implementation of IAS 19 (Revised) has impacted the income statement in the following ways:

- A change in the calculation of the interest income on plan assets. This was previously based on the expected returns on the various asset types held within the investment portfolio. It is now calculated at the same rate used to calculate the interest expense on the pension liability, being a discount rate derived from high quality corporate bonds. The difference between this calculated return and the actual return is reported as a remeasurement through reserves; and
- The reporting of combined net interest on the benefit liability/asset within finance expense, rather than showing the movement on the expected return on plan assets and the interest on the pension obligation within administrative expenses.

As a result of this the consolidated income statement, the consolidated statement of comprehensive income and the consolidated cashflow have been restated for the 52 weeks ended 29 December 2012. There is no change to the net pension liability or to net assets as a result of the implementation of IAS19 (Revised) and therefore no restatement of the balance sheet is required. The impact on the consolidated income statement is as follows:

	52 weeks ended 29 December 2012		
	As originally presented £'000	Impact of IAS 19 (Revised) £'000	Restated £'000
Operating profit	53,293	(553)	52,740
Finance income/(expense)	49	(426)	(377)
Profit before tax	53,342	(979)	52,363
Tax	(12,775)	225	(12,550)
Profit after tax	40,567	(754)	39,813
Earnings per share – basic	40.7p	(0.7p)	40.0p
Earnings per share – diluted	40.1p	(0.7p)	39.4p

The impact on the consolidated statement of comprehensive income is as follows:

	52 weeks ended 29 December 2012		
	As originally presented £'000	Impact of IAS 19 (Revised) £'000	Restated £'000
Profit for the period	40,567	(754)	39,813
Remeasurement on defined benefit pension plans	4,257	979	5,236
Tax on items taken directly to equity	(979)	(225)	(1,204)
Total comprehensive income for the period	43,845	–	43,845

The figures for cash generated by operations in the cashflow statement have also been amended to reflect these changes.

The preparation of financial information in conformity with adopted IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of revision and future years if the revision affects both current and future years.

The key estimates and judgements that have the most significant impact on the accounts are as follows:

Post retirement benefits

The determination of the defined benefit obligation of the Group's defined benefit pension scheme depends on the selection of certain assumptions including the discount rate, inflation rate and mortality rates. Differences arising from actual experience or future changes in assumptions will be reflected in future years. The key assumptions made for 2013 are given in Note 20.

Impairment of property, plant and equipment

Property, plant and equipment is reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable. For example, bakery equipment may be impaired if it is no longer in use and/or shop fittings may be impaired if sales in that shop fall. When a review for impairment is conducted the recoverable amount is determined based on value in use calculations which include management's estimates of future cash flows generated by the assets and an appropriate discount rate. The sensitivities for growth rate, discount rate and lease term have been considered and are deemed not significant. For instance, a one per cent change in the discount rate would result in a £26,000 change in the impairment charge.

Depreciation of property, plant and equipment

Depreciation is provided so as to write down the assets to the residual values over their estimated useful lives, both of which require management's judgement (see accounting policy (g)).

Provisions

Provisions have been estimated for onerous leases and dilapidations. These provisions represent the best estimate of the liability at the balance sheet date, the actual liability being dependent on future events such as trading conditions at a particular shop or the ability of the Group to exit from the lease commitment. Expectations will be revised each period until the actual liability arises, with any difference accounted for in the period in which the revision is made.

Notes to the consolidated accounts

for the 52 weeks ended 28 December 2013

(2012: 52 weeks ended 29 December 2012)

continued

Significant accounting policies continued

(c) Basis of consolidation

The consolidated accounts include the results of Greggs plc and its subsidiary undertakings for the 52 weeks ended 28 December 2013. The comparative period is the 52 weeks ended 29 December 2012.

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists where the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The accounts of subsidiaries are included in the consolidated accounts from the date control commences until the date that control ceases.

(ii) Transactions eliminated on consolidation

Intragroup balances, and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated accounts.

(d) Exceptional items

Exceptional items are defined as items of income and expenditure which are material and unusual in nature and which are considered to be of such significance that they require separate disclosure on the face of the income statement in accordance with IAS 1.

(e) Foreign currency

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign exchange differences arising on translation are recognised in the income statement.

(f) Intangible assets

The Group's only intangible assets relate to software which is measured at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in the income statement as incurred.

Amortisation is recognised in the income statement on a straight line basis over the estimated useful lives of intangible assets from the date that they are available for use. The estimated useful lives for the current and comparative periods are five years.

(g) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation (see below) and impairment losses (see accounting policy (k)). The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

(ii) Subsequent costs

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group, and its costs can be measured reliably. The carrying value of the replaced component is derecognised. The costs of the day to day servicing of property, plant and equipment are recognised in the income statement as incurred.

(iii) Depreciation

Depreciation is provided so as to write off the cost (less residual value) of each item of property, plant and equipment during its expected useful life using the straight line method over the following periods:

Freehold and long leasehold buildings	40 years
Short leasehold properties	10 years or length of lease if shorter
Plant, machinery, equipment, vehicles, fixtures and fittings	3 to 10 years

Freehold land is not depreciated.

Depreciation methods, useful lives and residual values (if not insignificant) are reassessed annually.

(iv) Assets in the course of construction

Depreciation on these assets commences when the assets are available for use.

(h) Investments

Non-current investments comprise investments in subsidiaries which are carried at cost less impairment.

Current investments comprise fixed term fixed-rate bank deposits where the term is greater than three months.

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of inventories includes expenditure incurred in acquiring the inventories and direct production labour costs.

(j) Cash and cash equivalents

'Cash and cash equivalents' comprises cash balances and call deposits with an original maturity of three months or fewer. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(k) Impairment

The carrying amounts of the Group and Company's assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. Impairment reviews are carried out on an individual shop basis unless there are a number of shops in the same location, in which case the impairment review is based on the location.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement. Impairment losses recognised in prior years are assessed at each reporting date and reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

(l) Non-current assets held for sale

Non-current assets that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets are remeasured in accordance with the Group and Company's accounting policies. Thereafter generally the assets are measured at the lower of their carrying amount and fair value less cost to sell.

(m) Share capital**(i) Repurchase of share capital**

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from equity. Repurchased shares that are held in the Employee Share Ownership Plan are classified as treasury shares and are presented as a deduction from total equity.

(ii) Dividends

Dividends are recognised as a liability in the year in which they are approved by the shareholders.

(n) Employee share ownership plan

The Group and Parent Company accounts include the assets and related liabilities of the Greggs Employee Benefit Trust ('EBT'). In both the Group and Parent Company accounts the shares held by the EBT are stated at cost and deducted from total equity.

(o) Employee benefits**(i) Defined contribution plans**

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement when they are due.

(ii) Defined benefit plans

The Company's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets (at bid price) are deducted. The Company determines the net interest on the net defined benefit asset/liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit asset/liability.

The discount rate is the yield at the reporting date on bonds that have a credit rating of at least AA, that have maturity dates approximating to the terms of the Company's obligations and that are denominated in the currency in which the benefits are expected to be paid.

Remeasurements arising from defined benefit plans comprise actuarial gains and losses and the return on plan assets (excluding interest). The Company recognises them immediately in other comprehensive income and all other expenses related to defined benefit plans in employee benefit expenses in the income statement.

Notes to the consolidated accounts

for the 52 weeks ended 28 December 2013

(2012: 52 weeks ended 29 December 2012)

continued

Significant accounting policies continued

When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised immediately in profit or loss when the plan amendment or curtailment occurs.

The calculation of the defined benefit obligations is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Company, the recognised asset is limited to the present value of benefits available in the form of any future refunds from the plan or reductions in future contributions and takes into account the adverse effect of any minimum funding requirements.

(iii) Share-based payment transactions

The share option programme allows Group employees to acquire shares of the Company. The fair value of share options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date, using an appropriate model, taking into account the terms and conditions upon which the share options were granted, and is spread over the period during which the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting. For options granted before 7 November 2002 the recognition and measurement principles of IFRS 2 have not been applied in accordance with the transitional provisions in IFRS 1. In addition deferred taxation has not been recognised on these options but is accounted for as current tax when it arises.

(p) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(i) Restructuring

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

(ii) Onerous leases

Provision for onerous leases are recognised when the Group believes that the unavoidable costs of meeting the lease obligations exceed the economic benefits expected to be received under the lease.

(iii) Dilapidations

Provisions for dilapidations are recognised on a lease by lease basis and are based on the Group's best estimate of the likely committed cash outflow.

(q) Revenue

(i) Retail sales

Revenue from the sale of goods is recognised as income on receipt of cash and is stated after deduction of discounts, promotions and value added taxation.

(ii) Wholesale sales

Wholesale sales, including sales to franchise outlets, are recognised when goods are dispatched to customers.

(r) Government grants

Government grants are recognised in the balance sheet initially as deferred income when there is a reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised in the income statement on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised in the income statement over the useful life of the asset.

(s) Expenses

(i) Operating lease payments

Payments under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense over the term of the lease.

(t) Finance income and expense

(i) Finance income

Finance income comprises interest receivable on cash balances and foreign exchange movements relating to overseas bank accounts. Interest income is recognised in the income statement as it accrues using the effective interest method.

(ii) Finance expenses

Finance expenses comprise interest payable on borrowings and related foreign exchange movements on any Euro bank borrowings, together with the net interest on the defined benefit pension scheme liability.

(u) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement 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 balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax recognised is based on the expected manner of realisation or settlement of the carrying amounts of assets and liabilities, using tax rates that are expected to apply when the temporary differences reverse, based on rates enacted or substantively enacted at the balance sheet date.

Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related deferred tax benefit will be realised.

(v) Research and development

The Company continuously strives to improve its products and processes through technical and other innovation. Such expenditure is typically expensed to the income statement as the related intellectual property is not capable of being formalised and does not always have distinguishable research and development phases.

(w) IFRSs available for early adoption not yet applied

The following standards and amendments to standards which will be relevant to the Group, were available for early adoption but have not been applied in these accounts:

- Transition guidance: Amendments to IFRS 10, IFRS 11 and IFRS 12 mandatory for accounting periods commencing on or after 1 January 2014;
- IFRS 10 'Consolidated Financial Statements' mandatory for accounting periods commencing on or after 1 January 2014;
- IFRS 11 'Joint Arrangements' mandatory for accounting periods commencing on or after 1 January 2014;
- IFRS 12 'Disclosure of Interests in Other Entities' mandatory for accounting periods commencing on or after 1 January 2014;
- IAS 27 'Separate Financial Statements (2011)' mandatory for accounting periods commencing on or after 1 January 2014;
- IAS 28 'Investments in Associates and Joint Ventures (2011)' mandatory for accounting periods commencing on or after 1 January 2014;
- 'Offsetting Financial Assets and Financial Liabilities' – Amendments to IAS 32 mandatory for accounting periods commencing on or after 1 January 2014; and
- 'Recoverable amount disclosures for non-financial assets' – Amendments to IAS 36 mandatory for accounting periods commencing on or after 1 January 2014.

These standards and amendments will be adopted as they become effective and none of them is expected to have a significant impact on the accounts.

1. Segmental analysis

The Board is considered to be the "chief operating decision maker" of the Group in the context of the IFRS 8 definition. The information which is reviewed by the Board for the purposes of assessing financial performance and allocating resources comprises the profit and loss account for the Company as a whole.

As a result of the strategic changes during the year the Group has reassessed the segmentation of its operations. The Group has identified one operating segment – food-on-the-go retailing which includes the sale of products through its own shops and franchised operations. The Group conducts a small amount of wholesale business but this is not significant in the context of IFRS 8 and it is no longer anticipated that this will become a 'Reportable Segment'.

Products and services – the Group sells a consistent range of fresh bakery goods, sandwiches and drinks in its shops. The Group also provides frozen bakery products to its wholesale customers.

Major customers – the majority of sales are made to the general public on a cash basis. A small proportion of sales are made on credit to certain organisations, including wholesale customers, but these are immaterial in a Group context.

Geographical areas – all results arise in the UK.

The Board has carefully considered the requirements of IFRS 8 and concluded that, as there is only one reportable segment whose revenue, profits, assets and liabilities are measured and reported on a consistent basis with the Group accounts no additional numerical disclosures are necessary.

Notes to the consolidated accounts

for the 52 weeks ended 28 December 2013

(2012: 52 weeks ended 29 December 2012)

continued

2. Financial risk management

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.

Retail sales represent a large proportion of the Group's sales and present no credit risk as they are made for cash or card payments. The Group does offer credit terms on sales to its wholesale and franchise customers. In such cases the Group operates effective credit control procedures in order to minimise exposure to overdue debts.

Counterparty risk is also considered low. All of the Group's surplus cash is held with highly rated banks, in line with Group policy.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group operates with net current liabilities because the majority of sales are for cash and limited stocks are held given their perishable nature. It is therefore reliant on the continued strong performance of the retail portfolio to meet its short-term liabilities. This is a well established and proven business model. Any increase in short-term liquidity risk can be mitigated by reducing capital expenditure. The Group had cash resources at the year end and has overdraft facilities of £5,000,000 of which £5,000,000 was undrawn at 28 December 2013 (2012: £5,000,000).

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments.

Market risk is not significant and therefore, sensitivity analysis would not be meaningful.

Currency risk

The Group has no regular transactions in foreign currency although there are occasional purchases, mainly of capital items, denominated in foreign currency. Whilst certain costs such as electricity and wheat can be influenced by movements in the US dollar, actual contracts are priced in sterling. In respect of those key costs which are volatile, such as electricity and flour, the price may be fixed for a period of time in line with Group policy. All such contracts are for the Group's own expected usage.

Interest rate

The Group has low exposure to interest rate risk. Interest only arises on its bank deposits and overdrafts and the defined pension scheme liability. Net financial expense in the year was £206,000 (2012: £377,000).

Equity prices

The Group has no equity investments other than its subsidiaries. As disclosed in Note 20 the Group's defined benefit pension scheme has investments in equity related funds.

Capital management

The Board defines capital as the equity of the Group. The Group has remained net cash positive with funding requirements met by cash generated from retail operations. The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to enable successful future development of the business. The Board's policy on dividend levels is to pursue a progressive dividend policy that pays due regard to the growth of earnings per share over the medium term, the cash generative nature of our business and our continuing determination to deliver value to our shareholders.

The Board will continue to consider purchasing its own shares in the market dependent on market prices and surplus cash levels. The trustees of the Greggs Employment Benefit Trust also purchase shares for future satisfaction of employee share options.

Financial instruments

Group and Parent Company

All of the Group's surplus cash is invested as cash placed on deposit or fixed-term deposits.

The Group's treasury policy has as its principal objective the achievement of the maximum rate of return on cash balances whilst maintaining an acceptable level of risk. Other than mentioned below there are no financial instruments, derivatives or commodity contracts used.

Financial assets and liabilities

The Group's main financial assets comprise cash and cash equivalents and fixed-term deposits. Other financial assets include trade receivables arising from the Group's activities.

Other than trade and other payables, the Group had no financial liabilities within the scope of IAS 39 as at 28 December 2013 (2012: £nil).

Fair values

The fair value of the Group's financial assets and liabilities is not materially different from their carrying values. Financial assets and liabilities comprise principally of trade receivables and trade payables and the only interest bearing balances are the bank deposits and borrowings which attract interest at variable rate.

Interest rate, credit and foreign currency risk

The Group has not entered into any hedging transactions during the year and considers interest rate, credit and foreign currency risks not to be significant.

3. Profit before tax

Profit before tax is stated after charging/(crediting):

	2013 £'000	2012 £'000
Amortisation of intangible assets	161	145
Depreciation on owned property, plant and equipment	33,225	32,842
Loss/(profit) on disposal of fixed assets	1,390	(1,475)
Release of government grants	(470)	(471)
Payments under operating leases	49,683	46,758
Research and development expenditure	425	650
Auditor's remuneration		
Audit of these accounts	149	149
Other services pursuant to such legislation	3	3
Audit of pension schemes' accounts	6	7
Other services – tax compliance	35	53
Other services – tax advisory	9	33
All other services	6	6

Amounts paid to the Company's auditor in respect of services to the Company, other than the audit of the Company's accounts, have not been disclosed as the information is required instead to be presented on a consolidated basis.

4. Exceptional items

	2013 £'000	2012 £'000
Cost of sales		
Supply sites – asset impairment	1,221	–
– loss on disposal of assets	463	–
Closure of Gosforth bakery – profit on disposal of leases	–	(345)
– lease costs	–	(1,100)
	1,684	(1,445)
Distribution and selling		
Shop asset impairment	1,790	–
Loss on disposal of assets	1,529	–
Onerous leases	3,134	–
	6,453	–
Total exceptional items	8,137	(1,445)

Supply sites

The impairment arises following the decision that additional capacity in the supply chain is not required in the medium term.

Shop impairment, onerous leases and loss on disposal of assets

The charges arise from the decision to focus on reshaping the Group's existing estate through closure and resite of shops and withdrawal from the Greggs moment brand.

Gosforth bakery

This relates to the release of the onerous lease provision and the profit on the sale of the old Gosforth bakery site during 2012.

Notes to the consolidated accounts

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5. Personnel expenses

The average number of persons employed by the Group (including Directors) during the year was as follows:

	2013 Number	2012 Number
Management	695	707
Administration	424	372
Production	3,243	3,075
Shop	15,817	15,867
	20,179	20,021

The aggregate personnel costs of these persons were as follows:

	Note	2013 £'000	2012 £'000
Wages and salaries		270,888	261,760
Compulsory social security contributions		20,095	19,767
Pension costs – defined contribution plans	20	9,030	7,852
Pension costs – defined benefit plans	20	182	426
Equity settled transactions	20	592	346
		300,787	290,151

In addition to wages and salaries, the total amount paid out under the Group's employee profit sharing scheme is contained within the main cost categories:

	2013 £'000	2012 £'000
Cost of sales	1,372	1,495
Distribution and selling costs	3,271	3,565
Administrative expenses	633	690
	5,276	5,750

6. Finance expense

	2013 £'000	2012 (restated) £'000
Interest income on cash balances	(69)	(41)
Foreign exchange loss/(gain)	93	(8)
Interest expense related to defined benefit obligation	182	426
	206	377

7. Profit attributable to Greggs plc

Of the Group profit for the year, £24,083,000 (2012: £39,787,000) is dealt with in the accounts of the Parent Company. The Company has taken advantage of the exemption permitted by section 408 of the Companies Act 2006 from presenting its own income statement.

8. Income tax expense

Recognised in the income statement

	Excluding exceptional items 2013 £'000	Exceptional items 2013 £'000	Total 2013 £'000	Total (restated) 2012 £'000
Current tax expense				
Current year	12,463	(670)	11,793	15,338
Adjustment for prior years	(170)	–	(170)	(698)
	12,293	(670)	11,623	14,640
Deferred tax expense				
Origination and reversal of temporary differences	(886)	(713)	(1,599)	(680)
Reduction in tax rate	(1,200)	–	(1,200)	(801)
Adjustment for prior years	139	–	139	(609)
	(1,947)	(713)	(2,660)	(2,090)
Total income tax expense in income statement	10,346	(1,383)	8,963	12,550

Reconciliation of effective tax rate

	2013	2013 £'000	2012	2012 (restated) £'000
Profit before tax		33,152		52,365
Income tax using the domestic corporation tax rate	23.25%	7,708	24.5%	12,829
Non-deductible expenses	2.0%	673	1.9%	1,001
Non-qualifying depreciation	3.5%	1,169	1.5%	813
Profit on disposal of non-qualifying assets	(0.1%)	(42)	–	–
Impairment of non-qualifying assets	1.3%	426	–	–
Impact of reduction in deferred tax rate	(2.8%)	(940)	(1.7%)	(900)
Adjustment for prior years	(0.1%)	(31)	(2.2%)	(1,193)
Total income tax expense in income statement	27.0%	8,963	24.0%	12,550

Reconciliation of effective tax rate (underlying excluding exceptional items)

	2013	2013 £'000	2012	2012 (restated) £'000
Profit before tax		41,289		50,918
Income tax using the domestic corporation tax rate	23.25%	9,600	24.5%	12,475
Non-deductible expenses	1.6%	673	2.0%	1,001
Non-qualifying depreciation	2.8%	1,169	1.6%	813
Profit on disposal of non-qualifying assets	(0.1%)	(42)	–	–
Impairment of non-qualifying assets	0.1%	41	–	–
Impact of reduction in deferred tax rate	(2.6%)	(1,064)	(1.5%)	(769)
Adjustment for prior years	(0.1%)	(31)	(2.6%)	(1,314)
Total income tax expense in income statement	25.0%	10,346	24.0%	12,206

On 5 July 2013 a reduction in the rate of corporation tax from 23 per cent to 21 per cent with effect from 1 April 2014 and a further reduction to 20 per cent with effect from 1 April 2015 was substantively enacted. Any timing differences which reverse before 1 April 2014 will be charged/credited at 23 per cent, any timing differences which reverse after 1 April 2014 and before 1 April 2015 will be charged/credited at 21 per cent and any timing differences which exist at 1 April 2015 will reverse at 20 per cent.

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8. Income tax expense continued

Tax recognised directly in equity

	2013 Current tax £'000	2013 Deferred tax £'000	2013 Total £'000	2012 Total (restated) £'000
Debit/(credit) to equity:				
Relating to equity-settled transactions	(5)	111	106	2
Relating to defined benefit plans – remeasurement gains	–	859	859	1,204
	(5)	970	965	1,206

9. Earnings per share

Basic earnings per share

Basic earnings per share for the year ended 28 December 2013 is calculated by dividing profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year ended 28 December 2013 as calculated below.

Diluted earnings per share

Diluted earnings per share for the year ended 28 December 2013 is calculated by dividing profit attributable to ordinary shareholders by the weighted average number of ordinary shares, adjusted for the effects of all dilutive potential ordinary shares (which comprise share options granted to employees) outstanding during the year ended 28 December 2013 as calculated below.

Profit attributable to ordinary shareholders

	2013 Excluding exceptional items £'000	2013 Exceptional items £'000	2013 Total £'000	2012 Excluding exceptional items (restated) £'000	2012 Exceptional items £'000	2012 Total (restated) £'000
Profit for the financial year attributable to equity holders of the Parent	30,943	(6,754)	24,189	38,712	1,101	39,813
Basic earnings per share	30.8p	(6.7p)	24.1p	38.9p	1.1p	40.0p
Diluted earnings per share	30.6p	(6.7p)	23.9p	38.3p	1.1p	39.4p

Weighted average number of ordinary shares

	2013 Number	2012 Number
Issued ordinary shares at start of year	101,155,901	101,155,901
Effect of own shares held	(762,222)	(1,587,754)
Weighted average number of ordinary shares during the year	100,393,679	99,568,147
Effect of share options on issue	912,387	1,478,599
Weighted average number of ordinary shares (diluted) during the year	101,306,066	101,046,746

10. Intangible assets

Group and Parent Company

	Software £'000
Cost	
Balance at 1 January 2012	686
Additions	–
Balance at 29 December 2012	686
Balance at 30 December 2012	686
Additions	1,029
Balance at 28 December 2013	1,715
Amortisation	
Balance at 1 January 2012	397
Amortisation charge for the year	145
Balance at 29 December 2012	542
Balance at 30 December 2012	542
Amortisation charge for the year	161
Balance at 28 December 2013	703
Carrying amounts	
At 1 January 2012	289
At 29 December 2012	144
At 30 December 2012	144
At 28 December 2013	1,012

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(2012: 52 weeks ended 29 December 2012)

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11. Property, plant and equipment

Group	Land and buildings £'000	Plant and equipment £'000	Fixtures and fittings £'000	Total £'000
Cost				
Balance at 1 January 2012	135,584	115,427	209,155	460,166
Additions	362	11,776	34,785	46,923
Disposals	(969)	(12,132)	(5,102)	(18,203)
Balance at 29 December 2012	134,977	115,071	238,838	488,886
Balance at 30 December 2012	134,977	115,071	238,838	488,886
Additions	746	11,386	34,469	46,601
Disposals	(692)	(6,305)	(24,113)	(31,110)
Balance at 28 December 2013	135,031	120,152	249,194	504,377
Depreciation				
Balance at 1 January 2012	26,172	71,473	109,257	206,902
Depreciation charge for the year	2,786	9,806	19,706	32,298
Impairment charge for the year	–	–	544	544
Disposals	(654)	(9,837)	(4,624)	(15,115)
Balance at 29 December 2012	28,304	71,442	124,883	224,629
Balance at 30 December 2012	28,304	71,442	124,883	224,629
Depreciation charge for the year	2,797	8,940	21,488	33,225
Ordinary impairment charge for the year	–	–	2,241	2,241
Exceptional impairment charge for the year (see Note 4)	1,221	–	1,790	3,011
Disposals	(386)	(5,681)	(20,459)	(26,526)
Balance at 28 December 2013	31,936	74,701	129,943	236,580
Carrying amounts				
At 1 January 2012	109,412	43,954	99,898	253,264
At 29 December 2012	106,673	43,629	113,955	264,257
At 30 December 2012	106,673	43,629	113,955	264,257
At 28 December 2013	103,095	45,451	119,251	267,797

Assets are reviewed for impairment on a regular basis and provision made where necessary. For shop assets a discounted cashflow is calculated for each shop using historic cashflows including attributable overheads, a zero per cent growth rate, the Group's cost of capital of seven per cent and an appropriate assumption regarding the remaining lease term. The net book value of the assets attributable to the shop is impaired to the extent that the net present value of the cashflows is lower than the net book value. Supply chain assets are impaired to their estimated net realisable value.

Parent Company

	Land and buildings £'000	Plant and equipment £'000	Fixtures and fittings £'000	Total £'000
Cost				
Balance at 1 January 2012	136,094	115,960	209,643	461,697
Additions	362	11,776	34,785	46,923
Disposals	(969)	(12,132)	(5,102)	(18,203)
Balance at 29 December 2012	135,487	115,604	239,326	490,417
Balance at 30 December 2012	135,487	115,604	239,326	490,417
Additions	746	11,386	34,469	46,601
Disposals	(692)	(6,305)	(24,113)	(31,110)
Balance at 28 December 2013	135,541	120,685	249,682	505,908
Depreciation				
Balance at 1 January 2012	26,449	71,743	109,648	207,840
Depreciation charge for the year	2,786	9,806	19,706	32,298
Impairment charge for the year	–	–	544	544
Disposals	(654)	(9,837)	(4,624)	(15,115)
Balance at 29 December 2012	28,581	71,712	125,274	225,567
Balance at 30 December 2012	28,581	71,712	125,274	225,567
Depreciation charge for the year	2,797	8,940	21,488	33,225
Ordinary impairment charge for the year	–	–	2,241	2,241
Exceptional impairment charge for the year (see Note 4)	1,221	–	1,790	3,011
Disposals	(386)	(5,681)	(20,459)	(26,526)
Balance at 28 December 2013	32,213	74,971	130,334	237,518
Carrying amounts				
At 1 January 2012	109,645	44,217	99,995	253,857
At 29 December 2012	106,906	43,892	114,052	264,850
At 30 December 2012	106,906	43,892	114,052	264,850
At 28 December 2013	103,328	45,714	119,348	268,390

Land and buildings

The carrying amount of land and building comprises:

	Group		Parent Company	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Freehold property	103,013	106,571	103,246	106,804
Long leasehold property	2	3	2	3
Short leasehold property	80	99	80	99
	103,095	106,673	103,328	106,906

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12. Investments

Non-current investments

Parent Company

Shares in
subsidiary
undertakings
£'000

Cost	
Balance at 1 January 2012, 30 December 2012 and 28 December 2013	5,828
Impairment	
As at 1 January 2012	841
Impairment charge for the year	–
As at 29 December 2012	841
As at 30 December 2012	841
Impairment charge for the year	–
As at 28 December 2013	841
Carrying amount	
As at 1 January 2012	4,987
As at 29 December 2012	4,987
As at 30 December 2012	4,987
As at 28 December 2013	4,987

The Company's subsidiary undertakings, which are all wholly owned, are as follows:

	Principal activity	Country of incorporation
Charles Bragg (Bakers) Limited	Non-trading	England and Wales
Greggs (Leasing) Limited	Dormant	England and Wales
Thurston Parfitt Limited	Non-trading	England and Wales
Greggs Properties Limited	Property holding	England and Wales
Olivers (U.K.) Limited	Dormant	Scotland
Olivers (U.K.) Development Limited*	Non-trading	Scotland
Birketts Holdings Limited	Dormant	England and Wales
J.R. Birkett and Sons Limited*	Non-trading	England and Wales
Greggs Trustees Limited	Trustees	England and Wales

* held indirectly

Current investments

	Group and Parent Company	
	2013 £'000	2012 £'000
Fixed term deposit	3,000	–

This represents cash placed on deposit that had a maturity of between three and six months at the date of inception. The fair value of the deposit is the same as its book value.

13. Inventories

	Group and Parent Company	
	2013 £'000	2012 £'000
Raw materials and consumables	11,604	12,703
Work in progress	3,801	4,955
	15,405	17,658

14. Trade and other receivables

	Group and Parent Company	
	2013 £'000	2012 £'000
Trade receivables	5,331	4,750
Other receivables	4,720	8,025
Prepayments	14,961	14,142
	25,012	26,917

At 28 December 2013 trade receivables are shown net of an allowance for bad debts of £37,000 (2012: £13,000) arising in the ordinary course of business.

The ageing of trade receivables that were not impaired at the balance sheet date was:

	Group and Parent Company	
	2013 £'000	2012 £'000
Not past due date	4,282	3,236
Past due 1-30 days	1,003	1,122
Past due 31-90 days	46	392
Past due 91-120 days	-	-
	5,331	4,750

The Group believes that the unimpaired amounts that are past due by more than 30 days are still collectable in full based on historic payment behaviour and extensive analysis of customer credit risk. Based on the Group's monitoring of customer credit risk, the Group believes that no impairment allowance is necessary in respect of trade receivables not past due.

15. Cash and cash equivalents

	Group and Parent Company	
	2013 £'000	2012 £'000
Cash and cash equivalents	21,572	19,381

16. Trade and other payables

	Group		Parent Company	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Trade payables	36,152	36,390	36,152	36,390
Amounts owed to subsidiary undertakings	-	-	7,807	7,807
Other taxes and social security	6,687	5,468	6,687	5,468
Other payables	17,463	16,744	17,463	16,744
Accruals and deferred income	11,433	12,889	11,433	12,889
Deferred government grants	468	464	468	464
	72,203	71,955	80,010	79,762

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17. Current tax liability

The current tax liability of £5,564,000 in the Group and the Parent Company (2012: Group and Parent Company £7,101,000) represents the estimated amount of income taxes payable in respect of current and prior years.

18. Other payables

	Group and Parent Company	
	2013 £'000	2012 £'000
Deferred government grants	7,028	7,502
Deferred dividends	12	–
	7,040	7,502

The Group has been awarded five government grants relating to the extension of existing facilities and construction of new facilities. The grants, which have all been recognised as deferred income, are being amortised over the weighted average of the useful lives of the assets they have been used to acquire.

19. Deferred tax assets and liabilities

Group

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Property, plant and equipment	–	–	8,608	11,773	8,608	11,773
Employee benefits	(809)	(2,418)	–	–	(809)	(2,418)
Short-term temporary differences	(291)	(156)	–	–	(291)	(156)
Tax (assets)/liabilities	(1,100)	(2,574)	8,608	11,773	7,508	9,199

The movements in temporary differences during the year ended 29 December 2012 were as follows:

	Balance at 1 January 2012 £'000	Recognised in income £'000	Recognised in equity £'000	Balance at 29 December 2012 £'000
Property, plant and equipment	13,986	(2,213)	–	11,773
Employee benefits	(3,788)	316	1,054	(2,418)
Short-term temporary differences	(188)	32	–	(156)
	10,010	(1,865)	1,054	9,199

The movements in temporary differences during the year ended 28 December 2013 were as follows:

	Balance at 30 December 2012 £'000	Recognised in income £'000	Recognised in equity £'000	Balance at 28 December 2013 £'000
Property, plant and equipment	11,773	(3,165)	–	8,608
Employee benefits	(2,418)	640	969	(809)
Short-term temporary differences	(156)	(135)	–	(291)
	9,199	(2,660)	969	7,508

Parent Company

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Property, plant and equipment	–	–	8,081	11,140	8,081	11,140
Employee benefits	(809)	(2,418)	–	–	(809)	(2,418)
Short-term temporary differences	(291)	(156)	–	–	(291)	(156)
Tax (assets)/liabilities	(1,100)	(2,574)	8,081	11,140	6,981	8,566

The movements in temporary differences during the year ended 29 December 2012 were as follows:

	Balance at 1 January 2012 £'000	Recognised in income £'000	Recognised in equity £'000	Balance at 29 December 2012 £'000
Property, plant and equipment	13,327	(2,187)	–	11,140
Employee benefits	(3,788)	316	1,054	(2,418)
Short-term temporary differences	(188)	32	–	(156)
	9,351	(1,839)	1,054	8,566

The movements in temporary differences during the year ended 28 December 2013 were as follows:

	Balance at 30 December 2012 £'000	Recognised in income £'000	Recognised in equity £'000	Balance at 28 December 2013 £'000
Property, plant and equipment	11,140	(3,059)	–	8,081
Employee benefits	(2,418)	640	969	(809)
Short-term temporary differences	(156)	(135)	–	(291)
	8,566	(2,554)	969	6,981

20. Employee benefits

Defined benefit plan

Scheme background

The Company sponsors a funded defined benefit pension plan (the 'scheme') for qualifying employees. The scheme was closed to future accrual in 2008 and all remaining employees who are still members of the scheme are now members of the Company's defined contribution scheme.

The scheme is administered by a separate Board of Trustees which is legally separate from the Company. The Trustees are composed of representatives of both the employer and employees. The Trustees are required by law to act in the interest of all relevant beneficiaries and are responsible for the investment policy with regard to the assets plus the day to day administration of the benefits.

UK legislation requires that pension schemes are funded prudently. The last funding valuation of the scheme was carried out by a qualified actuary as at 6 April 2011 and showed a surplus. The Company is currently not required to pay contributions into the scheme. The next funding valuation is due no later than 6 April 2014.

Profile of the scheme

The defined benefit obligation includes benefits for former employees and current pensioners. Broadly, 65 per cent of the liabilities are attributable to former employees and 35 per cent to current pensioners.

The scheme duration is an indicator of the weighted average time until benefit payments are made. For the scheme as a whole, the duration is approximately 20 years.

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20. Employee benefits continued

Investment strategy

The Company and Trustees have agreed a long term strategy for reducing investment risk as and when appropriate. This includes a policy to hold sufficient bond assets to cover the anticipated benefit payments for the next ten years so as to improve the cashflow matching of the scheme's assets and liabilities.

Scheme assets and liabilities

	Group and Parent Company	
	2013 £'000	2012 £'000
Defined benefit obligation	(95,597)	(90,333)
Fair value of plan assets	95,652	86,277
Net defined benefit asset/(liability)	55	(4,056)

Changes in the present value of the defined benefit obligation are as follows:

	Group and Parent Company	
	2013 £'000	2012 £'000
Opening defined benefit obligation	90,333	87,809
Interest cost	4,000	4,147
Remeasurement losses	4,169	926
Benefits paid	(2,905)	(2,549)
	95,597	90,333

Changes in the fair value of plan assets are as follows:

	Group and Parent Company	
	2013 £'000	2012 (restated) £'000
Opening fair value of plan assets	86,277	78,943
Net interest on plan assets	3,818	3,721
Remeasurement gains	8,462	6,162
Contributions by employer	–	–
Benefits paid	(2,905)	(2,549)
Closing fair value of plan assets	95,652	86,277

The amounts recognised in the income statement are as follows:

	Group	
	2013 £'000	2012 (restated) £'000
Interest on net defined benefit liability	182	426

The amounts recognised in other comprehensive income are as follows:

	Group	
	2013 £'000	2012 (restated) £'000
Remeasurements on defined benefit pension plans	4,293	5,236

Cumulative remeasurement gains and losses reported in the statement of recognised income and expenses since 28 December 2003, the transition date to adopted IFRSs, for the Group and the Parent Company are net losses of £17,559,000 (2012: net losses of £21,852,000).

The fair value of the plan assets was as follows:

	Group and Parent Company	
	2013 £'000	2012 £'000
Equities – UK	32,809	27,609
– overseas	34,244	29,766
Bonds – corporate	14,252	14,408
– government	9,470	8,455
Property	2,200	2,157
Cash and cash equivalents/other	2,677	3,882
	95,652	86,277

The plan assets include ordinary shares issued by the Company with a fair value of £329,000 (2012: £456,000).

Principal actuarial assumptions (expressed as weighted averages):

	Group and Parent Company	
	2013	2012
Discount rate	4.4%	4.5%
Future salary increases	n/a	n/a
Future pension increases	1.8% – 2.4%	1.8% – 2.3%

Mortality assumption

Mortality in retirement is assumed to be in line with the S1PXA tables using CMI_2011 projections and a long-term rate of one per cent p.a. Under these assumptions, pensioners aged 65 now are expected to live for a further 22.1 years if they are male and 24.3 years if they are female. Members currently aged 45 are expected to live for a further 23.4 years from age 65 if they are male and for a further 25.9 years from age 65 if they are female.

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20. Employee benefits continued

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

	Change in assumption	Impact on scheme liabilities
Discount rate	Increase of 0.1%	Increase £1.9m
Inflation	Decrease by 0.1%	Increase £1.3m
Mortality rates	Increase 1 year	Increase £3.3m

The other demographic assumptions have been set having regard to latest trends in the scheme.

The Group expects to contribute £nil to its defined benefit plan in 2014.

Defined contribution plan

The Company also operates defined contribution schemes for other eligible employees. The assets of the schemes are held separately from those of the Group. The pension cost represents contributions payable by the Group and amounted to £9,030,000 (2012: £7,852,000) in the year.

Share-based payments – Group and Parent Company

The Group has established a Savings Related Share Option Scheme, which granted options in April 2003, September 2004, September 2005, September 2006, April 2008, September 2009, April 2011, April 2012 and April 2013 and an Executive Share Option Scheme, which granted options in September 2003, March 2004, August 2004, September 2004, August 2006, April 2008, April 2009, August 2011 and March 2013.

Both of these schemes also made grants of options prior to 7 November 2002. The recognition and measurement principles of IFRS 2 have not been applied to these grants in accordance with the transitional provisions in IFRS 1 and IFRS 2.

The Company established a Performance Share Plan in 2009 and grants of options have been made under this scheme in April 2010, March 2011, April 2012 and March 2013.

During 2013 the Company issued shares to the Chief Executive as a transitional bonus on his recruitment.

The terms and conditions of the grants are as follows, whereby all options are settled by physical delivery of shares:

	Date of grant	Employees entitled	Exercise price	Number of shares granted	Vesting conditions	Contractual life
Executive Share Option Scheme 11	August 2004	Senior employees	340p	930,000	Three years' service and EPS growth of 3-5% over RPI on average over those three years	10 years
	September 2004	Senior employees	348p	24,000	Three years' service and EPS growth of 3-5% over RPI on average over those three years	10 years
Executive Share Option Scheme 12	August 2006	Senior employees	407p	1,028,000	Three years' service and EPS growth of 3-5% over RPI on average over those three years	10 years
Executive Share Option Scheme 13	April 2008	Senior employees	457p	618,500	Three years' service and EPS growth of 3-5% over RPI on average over those three years	10 years
Executive Share Option Scheme 14	April 2009	Senior employees	356p	2,012,000	Three years' service and EPS growth of 3-7% over RPI on average over those three years	10 years
Performance Share Plan 2	March 2011	Senior executives	nil	223,418	Three years' service, EPS annual compound growth of 3-8% over RPI over those three years and TSR position relative to an appropriate comparator group	10 years
Savings Related Share Option Scheme 12	April 2011	All employees	453p	697,609	Three years' service	3.5 years
Executive Share Option Scheme 15	August 2011	Senior employees	482p	707,000	Three years' service and EPS growth of 3-7% over RPI on average over those three years	10 years
Performance Share Plan 3	April 2012	Senior executives	nil	248,922	Three years' service, EPS annual compound growth of 3-8% over RPI over those three years and TSR position relative to an appropriate comparator group	10 years
Savings Related Share Option Scheme 13	April 2012	All employees	468p	703,332	Three years' service	3.5 years
Executive Share Option Scheme 16	March 2013	Senior employees	480p	693,000	Three years' service and EPS growth of 3-7% over RPI on average over those three years	10 years
Transitional bonus share award	March 2013	Chief Executive	nil	60,000	Continuous service of 2 and 3 years	3 years
Performance Share Plan 4	March 2013	Senior executives	nil	305,592	Three years' service, EPS annual compound growth of 3-8% over RPI over those three years and TSR position relative to an appropriate comparator group	10 years
Savings Related Share Option Scheme 14	April 2013	All employees	414p	699,989	Three years' service	3.5 years

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continued

20. Employee benefits continued

The number and weighted average exercise price of share options is as follows:

	2013		2012	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
Outstanding at start of year	374p	4,172,263	360p	4,978,002
Lapsed during the year	244p	(583,411)	270p	(820,692)
Exercised during the year	360p	(191,802)	361p	(937,301)
Granted during the year	354p	1,758,581	346p	952,254
Outstanding at end of year	382p	5,155,631	374p	4,172,263
Exercisable at end of year	380p	1,430,650	377p	1,732,547

The options outstanding at 28 December 2013 have an exercise price in the range of £nil to £4.82 and have a weighted average contractual life of 5.0 years. The options exercised during the year had a weighted average market value of £4.51 (2012: £4.88).

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on the Black-Scholes model for Savings Related Share Option Schemes and Executive Share Option Schemes and using this and the Monte Carlo option pricing model for Performance Share Plans. The fair value per option granted and the assumptions used in these calculations are as follows:

	2013				2012	
	Performance Share Plan 4 March 2013	Transitional share bonus award March 2013	Executive Share Option Scheme 16 March 2013	Savings Related Share Option Scheme 14 April 2013	Performance Share Plan 3 April 2012	Savings Related Share Option Scheme 13 April 2012
Fair value at grant date	327p	474p	34p	49p	384p	68p
Share price	474p	474p	480p	460p	526p	520p
Exercise price	nil	nil	480p	414p	nil	468p
Expected volatility	17.8%	–	17.8%	18.9%	21.0%	20.9%
Option life	3 years	2-3 years	3 years	3 years	3 years	3 years
Expected dividend yield	4.06%	–	4.06%	4.24%	3.71%	3.71%
Risk-free rate	0.31%	–	0.34%	0.34%	0.59%	0.59%

The expected volatility is based on historical volatility, adjusted for any expected changes to future volatility due to publicly available information. The historical volatility is calculated using a weekly rolling share price for the three year period immediately prior to the option grant date.

Market condition features were incorporated into the Monte Carlo models for the total shareholder return element of the Performance Share Plan in determining the fair value at grant date. The assumptions used in this model were as follows:

	Performance Share Plan 4 March 2013	Performance Share Plan 3 April 2012
Average share price volatility FTSE 250 comparator group	31.2%	46.3%
Average correlation FTSE 250 comparator group	15.6%	16.7%

The costs charged to the income statement relating to share-based payments were as follows:

	2013 £'000	2012 £'000
Share options granted in 2009	(22)	(46)
Share options granted in 2010	(239)	(87)
Share options granted in 2011	284	299
Share options granted in 2012	244	180
Share options granted in 2013	325	–
Total expense recognised as employee costs	592	346

21. Provisions

	Group and Parent Company	
	2013 £'000	2012 £'000
Balance at start of year	1,754	3,499
Transfer from trade and other payables	433	–
Additional provision in the year	4,387	324
Utilised in the year	(881)	(268)
Provisions reversed during the year	(332)	(1,801)
Balance at end of year	5,361	1,754
Included in current liabilities	2,949	359
Included in non-current liabilities	2,412	1,395
	5,361	1,754

Provisions relate to onerous leases, dilapidations and other commitments associated with the vacation of properties. Included within the provision is £179,000 in respect of possible recourse on leases transferred to the purchaser on the sale of the Belgian operation.

The provision for onerous leases is held in respect of leasehold properties for which the Group is liable to fulfil rent and other property commitments for shops from which either the Group no longer trades or for which future trading cash flows are projected to be insufficient to cover these costs. Amounts have been provided for the shortfall between projected cashflows and property costs up to the lease expiry date or other appropriate estimated date. The majority of this provision is expected to be utilised within four years such that the impact of discounting would not be material.

The Group provides for property dilapidations, where appropriate, based on estimated costs of the dilapidation repairs and expects to utilise this provision within one year.

£3,134,000 of the additional provision made in the year was exceptional and is described in further detail in Note 4.

22. Capital and reserves

Share capital

	Ordinary shares	
	2013 Number	2012 Number
In issue and fully paid at start and end of year – ordinary shares of 2p	101,155,901	101,155,901

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.

Capital redemption reserve

The capital redemption reserve relates to the nominal value of issued share capital bought back by the Company and cancelled.

Own shares held

Deducted from retained earnings is £4,134,000 (2012: £4,994,000) in respect of own shares held by the Greggs Employee Benefit Trust. The Trust, which was established during 1988 to act as a repository of issued Company shares, holds 657,210 shares (2012: 946,018 shares) with a market value at 28 December 2013 of £2,885,000 (2012: £4,312,000) which have not vested unconditionally in employees.

The shares held by the Greggs Employee Benefit Trust can be purchased either by employees on the exercise of an option under the Greggs Executive Share Option Schemes, Greggs Savings Related Share Option Schemes and Greggs Performance Share Plan or by the trustees of the Greggs Employee Share Scheme. The trustees have elected to waive the dividends payable on these shares.

Notes to the consolidated accounts

for the 52 weeks ended 28 December 2013

(2012: 52 weeks ended 29 December 2012)

continued

22. Capital and reserves continued

Dividends

The following tables analyse dividends when paid and the year to which they relate:

	2013 Per share pence	2012 Per share pence
2011 final dividend	–	13.5p
2012 interim dividend	–	6.0p
2012 final dividend	13.5p	–
2013 interim dividend	6.0p	–
	19.5p	19.5p

The proposed final dividend in respect of 2013 amounts to 13.5 pence per share (£13,567,000). This proposed dividend is subject to approval at the Annual General Meeting and has not been included as a liability in these accounts.

	2013 £'000	2012 £'000
2011 final dividend	–	13,432
2012 interim dividend	–	5,974
2012 final dividend	13,555	–
2013 interim dividend	6,027	–
	19,582	19,406

23. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2013 Property £'000	2013 Equipment £'000	2013 Total £'000	2012 £'000
Less than one year	38,144	2,097	40,241	41,195
Between one and five years	75,178	3,666	78,844	95,892
More than five years	14,046	493	14,539	21,584
	127,368	6,256	133,624	158,671

The Group leases the majority of its shops under operating leases. The leases typically run for a period of ten years, with an option to renew the lease after that date. Lease payments are generally increased every five years to reflect market rentals. For a small number of the leases the rental is contingent on the level of turnover achieved in the relevant unit.

The inception of the shop leases has taken place over a long period of time and many date back a significant number of years. They are combined leases of land and buildings. It is not possible to obtain a reliable estimate of the split of the fair values of the lease interest between land and buildings at inception. Therefore, in determining lease classification the Group evaluated whether both parts are clearly an operating lease or a finance lease. Firstly, title does not pass for the land or building. Secondly, because the rent paid to the landlord for the buildings is increased to market rent at regular intervals, and the Group does not participate in the residual value of the land or building it is judged that substantially all the risks and rewards of the land and building are with the landlord. Based on these qualitative factors it is concluded that the leases are operating leases.

During the year the Company has entered into operating leases for equipment, namely cars and solar panels for its bakeries.

24. Capital commitments

During the year ended 28 December 2013, the Group entered into contracts to purchase property, plant and equipment and intangible assets for £3,023,000 (2012: £717,000). These commitments are expected to be settled in the following financial year.

25. Related parties

Identity of related parties

The Group has a related party relationship with its subsidiaries (see Note 12) and its Directors and executive officers.

Trading transactions with subsidiaries – Group

There have been no transactions between the Company and its subsidiaries during the year (2012: £nil).

Trading transactions with subsidiaries – Parent Company

	Amounts owed to related parties		Amounts owed by related parties	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Dormant subsidiaries	7,807	7,807	–	–

The Greggs Foundation is also a related party and during the year the Company made a donation to the Greggs Foundation of £650,000 (see Social Responsibility on pages 26 to 33).

Transactions with key management personnel

The Directors are the key management personnel of the Group. The Company has been notified of the following interests of the Directors who served during the year (including those of their connected persons but excluding interests in shares pursuant to unexercised share options) in the share capital of the Company as follows:

	Ordinary shares of 2p (Beneficial interest)		Ordinary shares of 2p (Trustee holding with no beneficial interest)	
	2013 (or date of cessation if earlier)	2012 (or date of appointment if later)	2013 (or date of cessation if earlier)	2012 (or date of appointment if later)
Roger Whiteside	72,253	12,253	–	–
Richard Hutton	55,413	55,413	1,000,000	1,650,000
Raymond Reynolds	52,850	52,850	–	–
Ian Durant (Non-Executive)	11,700	1,950	–	–
Julie Baddeley (Non-Executive)	6,000	3,000	–	–
Iain Ferguson (Non-Executive)	15,000	10,000	–	–
Allison Kirkby (Non-Executive)	600	–	–	–
Derek Netherton (Non-Executive)	14,446	11,946	–	–
Kennedy McMeikan	82,873	82,873	–	–

Details of Directors' share options, emoluments, pension benefits and other non-cash benefits can be found in the Directors' Remuneration Report on pages 46 to 62. Total remuneration is included in personnel expenses (see Note 5).

There have been no changes since 28 December 2013 in the Directors' interests noted above.

26. Events after the reporting period

As noted in the Chief Executive's Report on pages 16 to 19 the Group announced a restructuring plan for its in-store bakeries and support operations in January 2014. The estimated cost impact of this plan in 2014 is £9 million and no liability for these costs has been recognised in these accounts in accordance with IAS 37.

Ten-year history

	2004 [*] (as restated) [*]	2005	2006 ¹	2007 ²	2008 ³	2009 [*]	2010	2011 ⁴	2012 ⁵ (as restated) ⁵	2013 ⁶
Turnover (£'m)	504.2	533.4	550.8	586.3	628.2	658.2	662.3	701.1	734.5	762.4
Total sales growth (%)	10.3% [^]	5.8% [^]	3.3%	6.4%	7.1%	4.8% [^]	0.6% [^]	5.8%	4.8%	3.8%
Like for like sales growth (%)	5.1%	4.0%	0.5%	5.3%	4.4%	0.8%	0.2%	1.4%	(2.7%)	(0.8%)
Earnings before interest and tax (EBIT) excluding exceptional items (£'m)	45.8	47.1	42.2	47.7	44.3	48.4	52.4	53.0	51.3	41.5
EBIT margin excluding exceptional items (%)	9.1%	8.8%	7.7%	8.1%	7.1%	7.4%	7.9%	7.6%	7.0%	5.4%
Earnings before interest and tax (£'m)	45.8	47.1	38.7	49.9	48.6	48.4	52.4	60.4	52.7	33.4
Profit on ordinary activities including exceptional items and before taxation (£'m)	47.8	50.2	40.2	51.1	49.5	48.8	52.5	60.5	52.4	33.2
Diluted earnings per share excluding exceptional items (pence) [‡]	26.8	27.9	26.2	32.0	30.6	34.0	37.3	38.8	38.3	30.6
Dividend per share (pence) [‡]	9.6	10.6	11.6	14.0	14.9	16.6	18.2	19.3	19.5	19.5
Shareholders' funds (£'m)	157.2	181.5	144.9	145.6	147.9	164.2	176.2	198.4	226.8	236.2
Capital expenditure (£'m)	25.1	41.7	30.0	42.3	40.8	30.3	45.6	59.1	46.9	47.6
Number of shops in operation at year end	1,263	1,319	1,336	1,368	1,409	1,419	1,487	1,571	1,671	1,671

* restated for the transition to IFRSs

[^] 2004 and 2009 were 53 week years, impacting on total sales growth for that year and the year immediately following

[‡] All years prior to 2009 adjusted to take account of the ten for one share split which took place during 2009

[§] restated following the adoptions of IAS 19 (Revised)

Exceptional items

- 1 includes £3.5m Bakers Oven Restructuring costs
- 2 includes one-off property gains of £2.2m
- 3 includes £4.3m exceptional credit
- 4 includes £7.4m exceptional credit (£9.6m pension credit offset by £2.2m bakery closure charges)
- 5 includes £1.4m exceptional credit
- 6 includes £8.1m exceptional charge

Notes

Notes

Financial calendar

Announcement of results and dividends

Half year	End of July
Full year	March

Dividends

Interim	Mid-October
Final	9 May 2014
Annual report posted to shareholders	March
Annual General Meeting	1 May 2014

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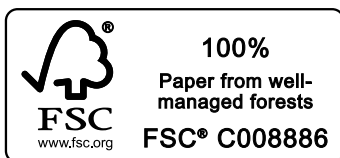
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