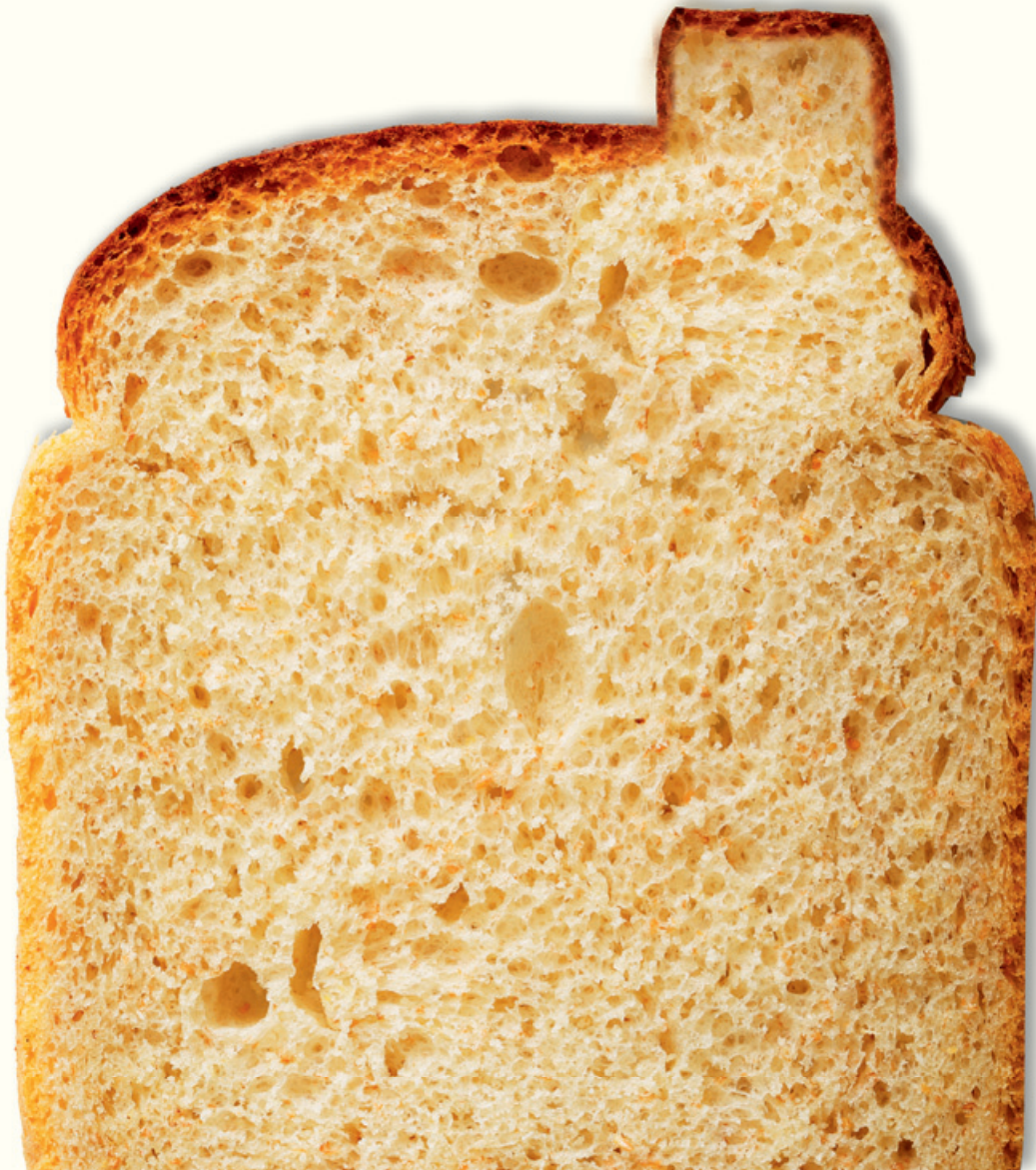


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# ANNUAL REPORT & ACCOUNTS

2010

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 **GREGGS**

The home of fresh baking<sup>®</sup>



# 1487

**shops nationwide**

• 68 new shops opened  
in the last year

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# Baking since 1939

## The Home of Fresh Baking

Greggs is the leading bakery retailer in the UK. We have over 1,480 shops, supplied by ten regional bakeries and 90 in-store bakers.

We employ over 19,000 people and serve six million customers each week.

We are passionate about baking and offer our customers quality, fresh food at great value prices. We are tremendously proud of our food, hand making all of our sandwiches and baking all our savouries fresh each day in our shops.

We are a growing business, with plans to make Greggs even more accessible to new customers by opening over 600 shops in the coming years, in locations where people live, work, travel and spend their leisure time.

Our new shops will create around 6,000 new retail jobs. Our expansion plans also include investment in our supply chain, to allow our ten bakeries to efficiently supply both new and existing shops.



## Financial highlights

	2010 £'m	2009 £'m
Turnover	662.3	658.2*
Like-for-like sales growth	0.2%	0.8%
Operating profit	52.4	48.4
Pre-tax profit	52.5	48.8
	Pence	Pence
Diluted earnings per share	37.3	34.0
Dividend per ordinary share	18.2	16.6

\* 2009 sales included a 53rd week.



## Financial calendar

Announcement of results and dividends

Half year	Early August
Full year	March
Dividends	
Interim	Mid October
Final	20 May 2011
Annual report posted to shareholders	Early April
Annual General Meeting	11 May 2011

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# Our Vision

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**Our vision is to be the number one for sandwiches and savouries from a united team who are passionate about being the best in bakery.**

## For our customers

We offer a wide range of fresh, delicious, quality bakery food. Every single sandwich we sell is hand made in the shops each day by our highly trained staff. All our savouries are sold fresh from the ovens in our shops throughout the day.

Our bakeries hand finish millions of products each week. We believe we are different because we make and bake most of our food from scratch. Our people are passionate about baking and each product is carefully prepared to give our customers quality and freshness at great value prices.

## For our people

We never forget that it's our people who make us a successful company. That's why we want all our people to feel individually valued and looked after, and for each person to share in the Company's success.

## Our values

Greggs began as a family business and we have retained those good, honest family values as our business has grown.

We will be enthusiastic and supportive in all that we do, open, honest and appreciative, treating everyone with fairness, consideration and respect.

## For our communities

We promise to continue to help make a difference to people's lives. Through our award winning Greggs Breakfast Club scheme, the Greggs Foundation, Children's Cancer Runs and other fundraising activities, we strive to make a positive impact on people's lives, building a strong community reputation in the areas where we operate.

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# best in bakery

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## For our shareholders

We have a proven track record of success and return on investment. Importantly, in today's economic climate more than ever, we offer the assurance and commitment that our business is run with integrity and that we are a responsible company. We are proud that Greggs is a trusted, valued and respected business.



# Directors' Report

## Directors' Report and Business Review for the 52 weeks ended 1 January 2011

The directors have pleasure in presenting their annual report and the audited accounts for the 52 weeks ended 1 January 2011. The comparative period is the 53 weeks ended 2 January 2010.

The directors' report and business review is set out on pages 6 to 31.

## Chairman's Statement



*"I am pleased to report another year of good progress. We have delivered record profits and a record number of new shop openings. We are delighted to be able to reflect this success by increasing our dividend to shareholders for the 26th consecutive year as well as continuing to reward our people through our long-established profit sharing scheme."*

## Results

Total Group sales for the 52 weeks ended 1 January 2011 were £662 million, an increase of 2.1 per cent compared with the equivalent 52 week period in 2009. Like-for-like sales grew by 0.2 per cent. Compared with our turnover of £658 million in the 53 weeks ended 2 January 2010, the increase in total sales was 0.6 per cent.

Operating profit grew by 8.1 per cent to £52.4 million (2009: £48.4 million) reflecting an improvement in operating margin to 7.9 per cent (2009: 7.4 per cent). After net finance income of £0.2 million (2009: £0.3 million) pre-tax profit increased by 7.7 per cent to £52.5 million (2009: £48.8 million). There were no exceptional items during either year.

The Group's effective tax rate for the year was 27.8 per cent (2009: 29.5 per cent), reflecting positive settlement of outstanding capital allowance claims and the impact of the Government's reduction in the Corporation Tax rate to 27 per cent on our deferred tax balances. Diluted earnings per share were 37.3 pence (2009: 34.0 pence), an increase of 9.7 per cent which reflected the benefits of the lower tax charge and our share buyback programme.

## Dividend and share buyback

The Board recommends an increased final dividend of 12.7 pence per share (2009: 11.4 pence). Together with the interim dividend of 5.5 pence (2009: 5.2

pence), paid in October 2010, this makes a total for the year of 18.2 pence (2009: 16.6 pence), an increase of 9.6 per cent. This is covered 2.0 times (2009: 2.0 times) by diluted earnings per share.

Subject to the approval of the Annual General Meeting, the final dividend will be paid on 20 May 2011 to shareholders on the register on 26 April 2011.

We are proud to maintain our exceptional record of dividend growth for the 26th consecutive year since Greggs floated on the stock market in 1984. The Board remains committed to pursuing 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 growing business and our continuing determination to deliver value to our shareholders.

During the year we purchased for cancellation 2,834,569 shares at an average price of £4.51 and a total cost of £12.9 million, in line with the plans we announced in March 2010. The business remains strongly cash generative and we ended the year with net cash and short term investments of £23.8 million (2009: £34.6 million) on the balance sheet.

Taken together, the cash return to shareholders through buybacks and dividends paid in 2010 was £29.9 million.



## The Board

We welcome Jonathan Jowett, who joined Greggs in April 2010 and took over as Company Secretary at our AGM in May. I would like to take this opportunity to thank Andrew Davison of Muckle LLP for his service as Company Secretary since 1995, and I am delighted that he is continuing his long association with Greggs as Chairman of the trustees of the Greggs Foundation and as a pension trustee.

## People

I cannot thank our staff enough for the enthusiasm and passion that they display throughout the business, with our customers and in the support that they give to the wider community.

I am delighted that 16,800 qualifying employees are sharing in a record £5.8 million through our long-established profit sharing scheme in recognition of the efforts they have all made to deliver record results under very challenging trading conditions.

### Ian Gregg OBE and Sir Michael Darrington

We are delighted that our former Chairman Ian Gregg OBE and former Group Managing Director Sir Michael Darrington are both to be honoured with Doctorates of Civil Law.

Newcastle University is to recognise Ian for his outstanding contributions in building this business and establishing its strong commitment to social responsibility, notably through the introduction of our profit sharing scheme in 1985 and the establishment of the Greggs Foundation in 1987.

Northumbria University is to honour Sir Michael Darrington for his outstanding contribution to the food industry and business ethics. We congratulate Ian and Michael on these well-deserved honours.

## Prospects

The growth opportunities for Greggs across the UK remain significant and our plans to open at least 600 new shops are well on track. Our investment in an even more efficient supply chain continues to make good progress and will support our accelerated growth.

2011 will present some significant challenges to UK retailers given the prevailing economic environment. However, I believe that our reputation for great value, the growing benefits of our move to a centrally run business and our cash-generative model mean that we are well placed to make progress despite these challenges.

The strategy that we set out in 2009 has been the basis of our record results in 2010. Our programme of accelerated expansion has progressed ahead of our original plan, delivering a record 68 net new shops and making Greggs accessible to more customers across the UK. All of this gives me confidence in Greggs' long term prospects as we continue to pursue our proven strategy for growth.



Ian Gregg OBE



Sir Michael Darrington

### Derek Netherton

Chairman  
16 March 2011

# Chief Executive's Report



*“Record numbers of shop openings and investment in refurbishments, including the roll-out of our new shop design, is making the shopping experience even more accessible and enjoyable for both new and existing customers. Our focus on great value ensures that we are well positioned for the harsh times prevailing in the wider economy, while our drive to improve efficiency has continued to deliver profitable growth for the benefit of all stakeholders in the business.”*



## Trading performance

Despite the tough trading conditions facing high streets across the UK in 2010 we grew total sales by 2.1 per cent compared with the equivalent 52 week period in 2009, including a 0.2 per cent increase in like-for-like sales.

Trading grew more difficult in the second half of the year, and particularly in the final quarter, not helped by heavy snowfalls across the country in November and December.

Whilst UK consumers continue to experience a very testing climate, one certainty is that they will increasingly seek out great value, for which Greggs has a very strong reputation. We have continued to listen to our customers' needs and responded by providing them with exceptional promotions, such as our breakfast meal deal offering coffee or tea combined with bacon or sausage in a roll. At only £1.99 this represents outstanding value compared with other food-on-the-go retailers and we have now sold more than 10 million breakfast rolls since they were launched.

We also recognised that there was an opportunity to strengthen our offer in the growing breakfast market and have now extended our breakfast offer to include porridge, croissants, pain au chocolat, fruit smoothies, and cheese and bacon wraps, and made this the focus of our current marketing campaign for Greggs as 'The home of fresh baking'.

Another feature of the year was the strong growth of hot drinks as we rolled out more coffee machines

serving freshly ground Fairtrade coffee. Great quality coffee at a price some 40 per cent below that of branded coffee operators is proving increasingly popular with our customers. This is now available in 1,100 of our shops and we will complete the roll-out in 2011.

During the year we were delighted to receive a number of awards, including being voted Best Bakery and Sandwich Chain in Best Magazine's British Food Awards, while our mince pies were named the UK's best by Woman magazine.

## Growing margins

Our operating margin increased by 0.5 per cent compared with that in 2009, which was affected by the additional costs of a 53rd week. Other key drivers of our improved performance in 2010 included:

- supply chain savings from implementation of our strategy
- improved scheduling of labour
- a reduction in shop waste
- better buying
- a full year's benefit from our actions in 2009 to reorganise the business, harmonise our product range and create a single brand.

## Our shops

During 2010 we broke our previous records for the numbers of both net shop openings and shop refits. We opened a total of 93 new shops, delivering a net increase of 68 after 25 closures, and giving us a total of 1,487 shops at 1 January 2011.

We have a healthy pipeline of new shops coming through and expect to add approximately 80 net new shops in the course of 2011. The current property market conditions have increased the availability of more attractive sites and are encouraging landlords to take a more realistic view on rents.

We completed 135 shop refurbishments in 2010, including 28 using our new shop design. In the current year we will extend these new design refits outside the London area with plans to refit a total of 60 across the UK in 2011. We have seen good returns on capital for our refits in 2010 and we plan to increase the total number of shop refits to 160 during 2011.

### Our supply chain

One of our unique points of difference is that we make the majority of the food we sell. As bakers we are at the very heart of producing our food and therefore much closer than most of our competitors to the source of origin of our products. We use our bakery skills and expertise to make great tasting food that offers our customers great value.

Supplying the majority of our own food means we are closer to the ingredients and recipes and are passionate about the quality of the products we make. This difference means that we know what's happening with our food right through from 'wheat to eat'.

The flexibility and controls that result from having our own supply chain are significant strengths that we are continuing to build on. Over the course of 2010 we have continued to improve our supply chain efficiency and this has allowed us to increase the number

of shops that can be supplied from our existing bakeries. In 2009 we outlined a five year plan to reduce the cost of supply to our shops by £10 million. Through consolidation of manufacturing into centres of excellence and investment in more efficient processes we delivered savings of £1.4 million in 2010, ahead of our original plan.

Construction of our new bakery at Balliol Park in Newcastle upon Tyne is progressing well. The new facility will be open and fully operational in the second half of 2011, increasing standards, efficiency and capacity when compared with our old Newcastle bakery. We currently anticipate that this relocation may result in a £1 million one-off charge in 2011. Building has also started at our new centre of excellence for confectionery at Penrith, which is due to become operational in September 2011.

We have also secured land and planning permission to construct a new bakery in Wiltshire to support our future growth plans in the South West.

### New operating structure

2010 was our first full year with our new central structure in place. This has enabled increased capacity to open new shops, greater speed in reacting to market conditions, tighter cost controls, efficiency savings and simplicity in running our business.

We have benefited from economies of scale in purchasing and have reduced costs through harmonising work practices in our supply chain. Our marketing campaigns have increased in impact and cost effectiveness as the adoption of a single national brand means that they now benefit all our shops.

In the coming year there is more scope to improve our business even further and we have embarked on three major change programmes in order to drive sales and reduce costs.

### Capital expenditure

Our total capital expenditure in 2010 was £45.6 million (2009: £30.3 million) reflecting our accelerated rate of new shop openings and refits, and the commencement of investment in our supply chain to support future growth. In 2011 we plan to increase capital expenditure to around £60 million, as we further accelerate the rate of new shop openings, around half of which are likely to be in the new shop design, complete even more refurbishments, and undertake the major phase of investment in our new Newcastle and Penrith bakeries.

This investment programme reflects our strong confidence in the future prospects of the business, and will be funded from our own cash flow.

### Corporate Social Responsibility

I am really proud that in 2010 our people have been outstanding once again at going that extra mile to do more for those who are less fortunate. We are also blessed with fantastic customers whose generosity during very difficult times is remarkable. For this I would like to thank our people and our customers so much for everything that they do to make such a difference to other people's lives. As an example of this we raised an amazing £904,850 for the BBC Children in Need appeal during 2010, and also made significant donations to the Haiti and Pakistan disaster appeals.

# Chief Executive's report continued



BBC Children in Need



Greggs Breakfast Clubs



## The community

The Greggs Breakfast Clubs are now in their eleventh year of operation, providing primary school children in disadvantaged areas with free, nutritious breakfasts each day. We supply fresh bread from our local shops for toast, along with funding for cereals, fruit and equipment. By developing partnerships with other companies we were able to exceed our target of reaching 150 Breakfast Clubs in 2010, and by the end of the year we had a total of 161, feeding more than 7,000 children each day. The success of the Clubs now being supported by other organisations, using the Greggs model, has encouraged us to set a new goal of expanding to 300 Breakfast Clubs as quickly as suitable partnerships can be developed.

The Greggs Operating Board also made a fantastic effort to raise money for charity, with all its members taking part in The Great Bakery Bike Ride, which attracted nearly 100 participants and raised £90,000 in aid of Children in Need and Greggs Breakfast Clubs. Our Finance Director Richard Hutton, along with Robin Leaver and Paul Ryan, covered a remarkable 900 miles in ten days.

During the year we were honoured to receive a Gold award in the Health & Wellbeing category of The Food and Drink Federation Community Partnership Awards.

The Greggs Foundation has continued its outstanding work, giving a record £1.4 million in grants to charitable and community organisations in the areas where we

operate. In 2010 we launched the first Foundation Week in our shops, which raised £66,000 in support of these initiatives. I continue to be hugely impressed with the Greggs Foundation and the great work it does across the UK.

## Our food

We removed all artificial colours, HVOs (hydrogenated vegetable oils) and added trans fats from our own products by the end of 2009. Last year we removed artificial flavours from the majority of our products and work is continuing to remove them completely. We have worked relentlessly to try and ensure that in making these changes our customers do not experience any change in the great taste of the products they love.

## The environment

We have made significant progress in reducing the amount of food waste sent to landfill and achieved a 36 per cent reduction in the year. Following the installation of smart meters designed to facilitate better monitoring and control of our energy usage we have achieved a reduction in overall energy consumption as measured on a per shop basis.

The Greggs Foundation has continued to provide support of £50,000 per annum to the Community Foundation's innovative LEAF project, which makes grants to charitable organisations to encourage people to take action on global environmental issues and to promote sustainable living.



Corporate Social Responsibility has always been important to Greggs and is deeply rooted in our culture. I am grateful to all our people for their continued determination to put something back into the communities where we operate, and congratulate them on their achievements during the year.

These and other issues are covered in greater depth in our Corporate Social Responsibility Report on pages 12 – 17.

### Our people

I am profoundly grateful to our people for everything they do to serve our customers each day. There could be no better illustration of the extraordinary spirit and commitment of our people than the example of the shop manager in Scotland who was so determined to open her shop during the severe snow in December that she walked 14 miles to get there and ended the working day by walking another 14 miles home. At the same time workers who were unable to get home slept in our bakeries in order to keep our supply chain functioning for our customers.

I am particularly pleased that this year our staff are sharing a record £5.8 million through our profit sharing scheme, which has been distributing 10 per cent of our profits each year since its inception in 1985.

### Outlook for 2011

The year ahead will continue to be challenging with rising global commodity prices being reflected in significant upward pressure on many of the key ingredient costs of all food producers. However, we expect to continue making Greggs even more efficient and as part of this we are dedicating resources to identify and unlock further cost savings throughout the business.

Total sales in the year ahead will benefit from a growing contribution from new selling space as our expansion programme accelerates, with the opening of around 80 net new shops during the year, financed from our own strong cash flow. In addition to the total sales growth I believe marginally positive like-for-like growth during the year is achievable. Performance in the year to date is in line with our expectations, with total sales

for the ten weeks ended 12 March 2011 increasing by 3.8 per cent, including like-for-like sales of 0.4 per cent. Whilst profits in the first half will have to bear the impact of additional bank holidays when compared to 2010 we expect the year as a whole to be one of further progress for Greggs.

Greggs has a clear vision: “To be the number one for sandwiches and savouries from a united team who are passionate about being the best in bakery”. By virtue of its strong value positioning, excellent products, outstanding staff and clear strategy for growth, with increasing investment in our shops and supply chain funded from our own cash flow I believe that Greggs is well placed for the challenges ahead. I look forward to giving consumers greater choice by opening more shops across the UK, and to Greggs continuing to make a strong contribution to society as a whole through adherence to our long-established family values.

### Kennedy McMeikan

Chief Executive  
16 March 2011

# Corporate Social Responsibility



## Greggs cares

Greggs is a company that cares deeply about making a difference to the lives of people in our local communities. We made terrific progress in this area in 2010 with a record-breaking year in terms of the amount of money our customers and staff raised in support of local communities, through company-led activities and the Greggs Foundation.

We care that our people are well looked after and rewarded for their hard work and we have made really good progress against our 'great place to work' targets.

We want our customers to experience quality bakery food they can trust at affordable prices. We made good progress over the year in reducing salt and fat in our products but still have more to do on making nutritional information more easily available for bread, rolls and confectionery lines.

In 2010, we diverted more waste from landfill, but there remain plenty of opportunities to do more for the environment, particularly in reducing carbon, which we will continue to focus on in the year ahead.

A record year of fundraising!  
We helped raise and donate over £2.7 million

# Our Achievements in 2010

- We shared 10 per cent of our profits, a record £5.8 million, with our people through our national profit share scheme, enabling them to share in the success of the company they work so hard for.
- We now have 161 Breakfast Clubs, giving over 7,000 children a nutritious breakfast, free, every day.
- We grew the number of Greggs Breakfast Clubs\* from 125 to 151. In addition, by partnering with other organisations (Beachcroft LLP, the CBI, Middlesbrough Council and RBS) we have been able to open another ten Breakfast Clubs. We would like to thank our co-sponsors for their fantastic support of the Breakfast Club initiative.
- In 2010 we partnered with Expochef to deliver healthier eating awareness sessions in primary schools. We sponsored 56 such events in our Breakfast Club schools.
- A record year of fundraising! We helped raise and donate over £2.7 million:
  - for the fifth year running, Greggs supported the BBC Children in Need campaign. Thanks to the hard work and generosity of our people and customers, we substantially increased our total raised to £904,850 in 2010, making Greggs the second largest corporate contributor to BBC Children in Need;
  - our Great Bakery Bike Ride raised £90,000. A team from Greggs, led by Finance Director Richard Hutton, cycled over 900 miles in ten days on a route covering all ten Greggs regional bakeries and distribution sites;
- we held our first ever Foundation Week, raising over £66,000 for the Greggs Foundation and resulting in donations to 50 charities chosen by our staff and customers. Foundation Week will now become an annual event in the Greggs calendar; and
- following the earthquake disaster in Haiti our staff and customers raised £186,000 for the official campaign, followed by a further £92,000 for the Pakistan floods appeal.
- We launched two major initiatives in conjunction with other businesses, to help break the cycle of unemployment for marginalised groups - a work placement programme for homeless people and a training course for women offenders in prison, aiming to give them skills to help them find future employment.
- We removed artificial flavours from the majority of products we make ourselves without impacting taste, which is a key concern for our customers.
- We diverted an additional 36 per cent of our waste from landfill, significantly exceeding our target of 10 per cent, meaning that in 2010, 49 per cent of our total waste was diverted from landfill.
- We reduced our Carbon Footprint (tonnes of CO<sub>2</sub>e) by 5 per cent on a per shop basis.
- Our people continued to organise and take part in Big Tidy Up Events across England, Scotland and Wales, in conjunction with Keep Britain Tidy, clearing litter from local areas.

## Thank you to our Breakfast Club partners



## Recognition:

The Greggs Breakfast Club scheme was awarded Gold status by the Food and Drink Federation Community Awards, in the Health & Wellbeing category.

Greggs Breakfast Clubs featured as one of five exemplar companies at the Business in the Community Annual Leadership Summit in 2010. The event was hosted by HRH The Prince of Wales and was attended by Prime Minister David Cameron and over 200 business leaders from around the UK.

Greggs CEO Kennedy McMeikan was appointed as HRH The Prince of Wales Ambassador for the North East, in recognition of his leadership and commitment to local communities.

*\*Greggs Breakfast Clubs give primary school children in deprived areas a nutritious free breakfast every day. Greggs provide the equipment, bread and money to purchase cereal, milk, etc, and the clubs are operated by the school and parent volunteers.*

# Progress against our 2010 targets

## Making a difference to our communities.

**We will grow the number of Breakfast Clubs to at least 150, providing a free, nutritious breakfast to more than 7,000 pupils each school day. We will develop partnerships with other organisations to enable further growth of the breakfast club scheme.**

✓ In 2010 we achieved a total of 151 (Greggs) Breakfast Clubs. Our new partnership model brings other businesses on board and has already secured an additional ten Breakfast Clubs, enabling us to set a target of 180 Breakfast Clubs by the end of 2011.

**We will sponsor Expochef Healthy Food events in 60 Breakfast Club schools in order to promote better understanding of healthy diets amongst pupils and their families.**

✓ 56 Expochef events took place in 2010, with the remaining four completed in January 2011. Over 3,500 primary school children benefited from the Expochef programme.

**We will donate at least 1 per cent of profits to the grant-making and Breakfast Club programmes of the Greggs Foundation.**

✓ The Greggs Foundation is integral to the Company and we are very pleased to report continued commitment to our Foundation with 1.2 per cent of pre-tax profits donated to it in 2010.

**We will run our first ever national fundraising initiative for the Greggs Foundation.**

✓ In 2010 we ran our first Foundation Week, with our people and customers raising £66,000!

**For the fifth year we will engage our staff and customers in a major national fundraising campaign to support the BBC Children in Need appeal.**

✓ 2010 was a record year of fund-raising by Greggs, smashing our 2009 total by raising an incredible £904,850 for BBC Children in Need. This takes our five year total for BBC Children in Need to an amazing £2.5 million.

**We will pilot initiatives to use our skills as a major employer to help break the cycle of unemployment for marginalised groups in communities.**

✓ In 2010 we piloted two initiatives. Firstly, we developed a training skills course for women offenders in Low Newton Prison, in partnership with five other businesses in the North East; secondly Greggs were one of the founding companies working with the Cyreniens and other businesses on a work placement programme for homeless people. Both initiatives are being repeated in 2011.

## Our targets for 2011:

- We will extend the Greggs Breakfast Club scheme to 180 supported clubs
- We will donate at least 1 per cent of profits to the grant-making and Breakfast Club programmes of the Greggs Foundation
- We will hold our second national fund-raising week for the Greggs Foundation, aiming to raise over £70,000
- For the sixth year running we will engage our staff and customers in a major national fund-raising campaign to support the BBC Children in Need appeal
- We will support Greggs-sponsored fun runs and a second Great Bakery Bike Ride to help more of our people to fund-raise through exercise-related activities
- We will divert an increased proportion of our unsold food to local charities
- We will continue to roll out initiatives to help break the cycle of unemployment for marginalised groups in our communities, utilising our skills as a major employer



Over 3,500 primary school children benefited from the Expochef programme



## A great place to work.

**In the 2010 Employee Opinion Survey (EOS) our target is that 75 per cent of our employees participate in the survey and we improve on our 2008 engagement score of 72 per cent.**

- ✓ From 2010 we committed to conducting an annual survey, seeking employees' feedback on key areas of communication, teamwork and training & development. In 2010, 72 per cent of our employees completed the survey, a little short of the 75 per cent target. We maintained our engagement score of 72 per cent with overall satisfaction amongst our people remaining high, evidenced by our low labour turnover rates and long service of employees.

**Through opening 50-60 new shops in 2010 we will create circa 500-600 new jobs.**

- ✓ In opening a net additional 68 shops around the UK, we have created more than 650 new retail jobs for local people.

**We will move from a regional to a national profit share scheme to ensure every person working at Greggs shares in the Company's success.**

- ✓ In 2010, a record £5.8 million was shared amongst eligible employees, with 16,800 people benefiting.

**We will enhance our management skills and development by delivering a 'coaching skills' programme and a 'high performing teams' programme in 2010.**

- ✓ In the first quarter of 2010 we ran a Coaching Skills programme for senior managers, which will continue to run in 2011. We also ran a series of High Performing Team training sessions across the Company, providing our people with skills and techniques for effective teamworking.

**We will review and improve our apprentice scheme and aim to have 30 bakery apprenticeships in place by the end of 2010.**

- ✓ We are delighted to report that in 2010, seven apprentices graduated from the current training programme. During 2010 we completed the review of our apprentice scheme. The review highlighted that the requirement for apprenticeships would be 10-15 and therefore we have revised our target and are now ready to launch the new apprentice scheme in 2011.



## Our targets for 2011:

- We will continue to share 10 per cent of our profits with our people
- In our 2011 EOS survey we aim to achieve an engagement score of 73 per cent or more
- We will improve communication for our people, to achieve the following targets:
  - More than two thirds of our people feel they have the opportunity to contribute their views on issues that affect them
  - More than two thirds of our supply teams feel that their line manager/supervisor shares important knowledge and information with them
- We will create over 700 new retail jobs through our new shop opening programme
- We will reduce our accidents by 5 per cent from our Accident Incident Rate of 2010
- We will recruit and develop 10 - 15 new Bakery Apprentices
- We will encourage our 650 graded managers to commit one working day to volunteer their skills and expertise to support a local community or environmental project

# Progress against our 2010 targets continued

## Quality, fresh bakery food our customers can trust.

**We will remove ALL artificial flavours from the products we make by the middle of 2010.**

✓ We have made significant progress against this target and the majority of Greggs food does not now contain artificial flavours. Work will continue in 2011 to remove artificial flavours from the last remaining products without changing the taste of our much loved products, which is a key consideration for customers.

**Nutritional information will be available to all our customers in all our shops for our national bread & rolls and confectionery ranges, so that our entire national product range is completed by the end of 2010.**

✗ In each Greggs shop, customers have access to leaflets detailing the nutritional values for our national ranges of sandwiches, savouries and drinks, which represent over 75 per cent of purchases. However, in 2010 we were not able to complete the work to make the same information available in our shops for bread and confectionery products. Customers can telephone our customer contact team to request nutritional information on any of our products, but we want to make this available to them in our shops and will continue to work on this in 2011.

**We will reduce the salt, fat and saturated fat content for each of our products, working towards the Food Standards Agency's 2012 targets.**

✓ We have met the FSA's salt reduction targets for 2012 ahead of target for our national bread lines. Work has been ongoing throughout the year to progressively reduce the salt, fat and saturated fat content of our other products. This continues to be done without adversely affecting the taste or quality of our products, a significant consideration for our customers.



## Our targets for 2011:

- We will provide nutritional information in our shops for our full national product range
- We will continue to reduce salt content, working towards the FSA/DoH 2012 targets, without compromising the great taste and quality of our food
- We will continue to reduce fat content without compromising the great taste and quality of our food
- We will continue to remove the last artificial flavours from the products we make ourselves
- We will agree and issue an ethical sourcing policy
- We will promote a better understanding of balanced diets



## Reducing our impact on the world around us.

**We will aim to achieve a 25 per cent reduction of our carbon footprint by 2015 (measured in tonnes of CO<sub>2</sub>e per shop).**

- ✓ We made some progress in 2010 towards the 2015 target, reducing our overall carbon footprint by 5 per cent as per the above measure. We recognise there is still much more to do.

**We will aim to achieve a 2.5 per cent reduction in carbon generated by our distribution activity.**

- ✗ We weren't able to make as much progress as we would have liked, achieving a 1 per cent reduction. We remain committed to reducing carbon emissions from our distribution activities and have carried this commitment forward.

**We will aim to achieve a 5 per cent reduction in energy usage per shop against our 2009 consumption.**

- ✗ We achieved a small reduction in energy usage per shop of 1 per cent. Our challenge was to make sure we could accurately monitor shop energy usage across all of our 1,487 shops, so in 2010 we focused on installing smart meters, which are now in virtually all of our shops. In 2011, we will focus our attention on further reducing the amount of energy used across the business, measured on a per shop basis.

**We will aim to divert an additional 10 per cent of waste from landfill, building on the 18 per cent diversion achieved in 2009 and the 20 per cent diversion achieved in 2008.**

- ✓ We are pleased to report that we exceeded this target, diverting an additional 36 per cent of waste from landfill in 2010.

**We will aim to reduce our bakery waste by 10 per cent (on a per shop basis).**

- ✗ We weren't able to meet this target in 2010, however for 2011 we have plans to implement bakery and shop waste monitoring processes into all our bakeries, and this target will be carried forward.

**We will continue to work with Keep Britain Tidy to encourage responsible disposal of litter.**

- ✓ Our strong relationship with Keep Britain Tidy continues and during the year we organised a number of 'Big Tidy Up' events throughout the country; we became founding participants in the 'Love Where You Live' litter awareness programme; and our Chief Executive was a keynote speaker at the Keep Britain Tidy Annual Conference 2010. We will continue to work closely with Keep Britain Tidy in the year ahead.

## Our targets for 2011:

- We will achieve a 5 per cent reduction in our 2010 carbon footprint (measured in tonnes of CO<sub>2</sub>e per shop), as part of our target of 25 per cent reduction per shop by the end of 2015
- We will divert a further 10 per cent of waste from landfill
- We will achieve a 3 per cent reduction in total energy usage in our shops and bakeries (measured in tonnes of CO<sub>2</sub>e per shop)
- We will achieve a 2.5 per cent reduction over the next three years in carbon generated by our distribution activity (measured in tonnes of CO<sub>2</sub>e per km per shop)
- We will reduce our bakery waste by 5 per cent (on a per shop basis)
- We will trial an electric car for six months to get a better understanding of how this could help reduce our future carbon footprint
- We will explore involvement with the Rivers Trust to investigate ways in which we can support improvements to the environment



# Key Performance Indicators

KPI	Definition	2006	2007	2008	2009	2010
Total sales growth	(a)	3.3%	6.4%	7.1%	4.8% ^	<b>0.6% ^</b>
Like-for-like sales growth	(b)	0.5%	5.3%	4.4%	0.8%	<b>0.2%</b>
Growth in net shop numbers	(c)	1.3%	2.4%	3.0%	0.7%	<b>4.8%</b>
Capital expenditure	(d)	£30.0m	£42.3m	£40.8m	£30.3m	<b>£45.6m</b>
Operating profit	(e)*	£42.2m	£47.7m	£44.3m	£48.4m	<b>£52.4m</b>
Operating margin	(f)*	7.7%	8.1%	7.1%	7.4%	<b>7.9%</b>
Diluted earnings per share (adjusted for ten for one share split which took place in 2009)	(g)*	26.2p	32.0p	30.6p	34.0p	<b>37.3p</b>

## Definitions:

- (a) Total sales growth is the percentage year on year change in total sales for the Group.
- (b) Like-for-like sales growth compares year on year cash sales in our 'core' shops, i.e. it is not distorted by shop openings or closures. Refitted shops are included in the like-for-like comparison unless there has been a significant change in the trading space. Like-for-like sales growth includes selling price inflation.
- (c) Growth in net shop numbers represents the percentage increase in number of shops in operation at the end of the year.
- (d) Capital expenditure is the total amount incurred in the year on investment in tangible fixed assets.
- (e) Operating profit reflects the performance of the Group before financing and taxation impacts.
- (f) Operating margin shows the operating profitability of the Group as a percentage of its sales.
- (g) Diluted earnings per share is calculated by dividing profit attributable to shareholders (i.e. profit after taxation) by the weighted average number of ordinary shares outstanding during the year after adjusting for the effect of own shares held and all dilutive potential ordinary shares (which comprise share options granted to employees).
- ^ 2009 was a 53 week year, impacting on total sales growth for that year and the year immediately following. Total sales growth for 2010 compared with the equivalent 52 week period in 2009 was 2.1 per cent. Total sales growth for 2009, excluding the 53rd week was 3.2%. Like-for-like sales growth is unaffected by a 53 week year.
- \* Operating profit, operating margin and diluted earnings per share – in order to show each of these KPI trends on a comparable basis the figures shown are the underlying figures excluding the impact of any one-off items. One-off items have occurred as follows:
- 2006 - Bakers Oven restructuring costs of £3.5m;  
 2007 - one-off property gains of £2.2m;  
 2008 - exceptional credit of £4.3m, comprising £1.1m profit on disposal of properties, £6.9m curtailment gain relating to the defined benefit pension scheme and a restructuring charge of £3.7m.



# Corporate Governance



Roger Whiteside

Raymond Reynolds

Iain Ferguson

Julie Baddeley

The Board recognises the importance of, and is committed to, high standards of corporate governance, and to integrity and high ethical standards in all of its business dealings.

The Board considers that it has complied, throughout the year under review, with the principles of governance set out in Section 1 of the Combined Code on corporate governance published by the Financial Reporting Council (the 'Combined Code') effective during the financial year.

The following statements, together with the Directors' Remuneration Report on pages 72 to 83 describe how the relevant principles and provisions of the Combined Code were applied to the Company in 2010 and will be relevant to the Company for the 2011 financial year.

## The Board

There were no changes to the Board during the period.

The Board currently comprises the Chairman, three executive and four non-executive directors as follows:

**Derek Netherton** (Chairman), 66, spent his career in investment banking and retired in 1996 from his position as joint head of corporate finance at J Henry Schroder & Co Limited. He is a non-executive director of St James's Place plc. He was appointed to the Board on 1 March 2002 and was appointed Chairman in August of the same year. Derek was appointed as Chair of Opera North on 17 June 2010. The Board does not consider that this new commitment will have any adverse impact on his ability to perform his duties as Chairman of the Company. He is Chairman of the Nominations Committee.

**Kennedy McMeikan** (Chief Executive), 45, joined the Board on 1 June 2008 and became Chief Executive of the Company on 1 August 2008. Kennedy was Retail

Director of J Sainsbury plc from 2005-2008. Prior to this, he had spent 14 years at Tesco. Appointed Chief Executive of Tesco in Japan in 2004 he had previously been Chief Executive of Europa Foods convenience store business following its acquisition by Tesco in 2002. He began his career at Sears UK in 1986, after five years' service in the Royal Navy. In 2010 Kennedy was appointed as HRH The Prince of Wales ambassador for the North East.

**Richard Hutton FCA** (Finance Director), 42, 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.

**Raymond Reynolds** (Retail Director), 51, 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.



Bob Bennett

Derek Netherton

Kennedy McMeikan

Richard Hutton

**Bob Bennett** (Senior Independent Director), 63, was appointed to the Board in December 2003. He trained as a chartered accountant with Spicer & Pegler and was Group Finance Director of Northern Rock plc from 1993 until his retirement at the end of January 2007. He is a member of the Nominations and Remuneration Committees; he has been Chairman of the Audit Committee since 2004 and became the Senior Independent Director in 2008.

**Julie Baddeley**, 59, 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 a non-executive director of Chrysalis VCT plc, and is an Associate Fellow of the Said Business School, Oxford. Julie has recently been invited to join the Board of Sustain, an

organisation providing consultancy services on carbon reduction. This appointment will be effective from 1 April 2011. Julie is a member of the Nominations and Audit Committees and has been Chair of the Remuneration Committee since 2005.

**Roger Whiteside**, 52, joined the Board on 17 March 2008. Roger is Managing Director of the Leased division of Punch Taverns plc. He was Chief Executive of the Thresher Group off-licence chain from 2004 to 2007. Prior to this, he was one of the founding team of Ocado, the innovative online grocer operating in partnership with Waitrose, and served as Joint Managing Director from 2000 to 2004. He began his career at Marks & Spencer, where he spent 20 years, ultimately becoming head of its Food Business. Roger is a member of the Nominations, Remuneration and Audit Committees of the Board.

**Iain Ferguson**, 55, 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 a former Commissioner on the UK Government's Policy Commission on the Future of Farming and Food and also a former President of the Institute of Grocery Distribution. He was, until 31 December 2008, President of the UK Food and Drink Federation. He is currently a non-executive director of Balfour Beatty plc and Berendson plc, a member of the PricewaterhouseCoopers (UK) Advisory Board, Honorary Vice President of the British Nutrition Foundation and lead Non-Executive Director of the DEFRA Management Committee. Iain is a member of the Nominations, Remuneration and Audit Committees of the Board.

# Corporate Governance continued

On 12 May 2010 Andrew Davison stepped down as Company Secretary. He was replaced by Jonathan Jowett, LL.M., who was appointed as Company Secretary and General Counsel. Jonathan qualified as a solicitor in 1989, and prior to joining the Company, held similar positions in international branded and own-brand manufacturing companies listed in London and on overseas stock exchanges. He sits on the Editorial Board of the International In-House Counsel Journal.

## Effectiveness

The Board, under the chairmanship of Derek Netherton, meets regularly to discharge its duties. At these meetings, it reviews Group strategy, performance, resources, risk management and other matters reserved for the Board. Whilst the executive responsibility for running the Company's business rests ultimately with the Chief Executive, Kennedy McMeikan, the non-executive directors ensure that the strategies proposed by the executive directors are fully discussed and critically examined prior to adoption. During 2010, the scheduled Board and Committee meetings, and the number of meetings attended by each current director were as follows:

	Main Board	Audit Committee	Remuneration Committee	Nominations Committee
<b>Number of meetings held</b>	6	4	5	2
Derek Netherton	6	–	–	2
Kennedy McMeikan	6	–	–	2
Richard Hutton	6	–	–	–
Raymond Reynolds	6	–	–	–
Julie Baddeley	6	4	5	2
Bob Bennett	6	4	5	2
Roger Whiteside	6	4	5	2
Iain Ferguson	6	4	5	2

In addition, the non-executive directors meet formally twice each year and from time to time, as required.



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 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 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.

After carefully reviewing the guidance in the Combined Code, all of the non-executive directors 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 re-election at the first AGM following appointment. Thereafter, any non-executive director who has served on the Board for more than nine years must seek re-election annually. One half of the remaining directors, being those who have been in office longest since last re-election, and any other director who has not been elected or re-elected at either of the two preceding AGMs, must seek re-election at each AGM.

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, through the Chairman, on all governance matters.

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. 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 2010, each director completed a written questionnaire and participated in a 'one to one' interview with the Company Secretary. In addition to covering the effectiveness of the Board, its committees and each individual director, the process also included a review of the performance of the Board against the objectives it set for itself at the start of the year and

whether the Board had operated in accordance with the Company's values at all times. The results are fed back to the Chairman and the Senior Independent Director and then to the Board for discussion. These discussions are used to identify actions to improve effectiveness, to identify individual and collective training needs and to set objectives for the Board for the next year.

## 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 each of these committees.

**The Audit Committee** currently consists of four independent non-executive directors (Bob Bennett - Chairman, Julie Baddeley, Roger Whiteside and Iain Ferguson). The Committee's main functions (which it discharged during the year) are to endeavour (i) to ensure that the accounting and financial policies of the Company are proper and effective; (ii) to assist the Board in fulfilling its oversight responsibilities by monitoring the integrity of the accounts and information published by the Company; (iii) to review the internal financial controls and the Group's approach to risk management; (iv) to monitor compliance with the Listing Rules and the recommendations of the Combined Code; and (v) to maintain an appropriate relationship with the

# Corporate Governance continued

Company's external auditors and review the effectiveness and objectivity of the audit process.

During the year, the Committee, in performing these functions, reviewed the annual and interim accounts issued to shareholders; compliance with financial reporting standards and the size and remit of the internal audit function. The Committee also considered and made recommendations to the Board in relation to the independence and objectivity of the external auditors (including the impact of any non-audit work undertaken by them) and their suitability for re-appointment. The Audit Committee reviewed the scope of the external audit in discussion with the external auditors and agreed their fees in respect of the audit.

The Committee normally meets with the Chief Executive, Finance Director, the external auditors, and more recently the Internal Audit Manager in attendance, although time is set aside annually for discussion between the Committee and the external auditors and with the Internal Audit Manager, in each case in the absence of all executive directors. The Committee has the power to engage outside advisers if it sees fit. The Committee also monitors and reviews the effectiveness of internal audit activity and the risk management process.

The Combined Code requires the Board to be satisfied that at least one member of the Audit Committee has recent and relevant financial experience – the Board is satisfied in this respect and is confident that the collective experience of the members enables them to act

effectively as an Audit Committee. The Committee also has access to the Group financial team and to its auditors and can seek further professional advice, at the Company's cost, if required.

## **The Remuneration Committee**

currently consists entirely of independent non-executive directors (Julie Baddeley – Chair, Bob Bennett, Roger Whiteside and Iain Ferguson). The Committee's main duties (which it discharged during the year) are to determine the basic salary, benefits in kind, terms and conditions of employment, performance-related bonuses, share options and pension benefits of the executive directors and the Chairman on behalf of the Board. The Committee is also responsible for the operation of the Company's share option schemes and for monitoring the framework for broad policy in respect of, and levels of remuneration of, the Company's senior management. A separate executive director committee sets, after discussion with the Chairman, the fees for the non-executive directors so as to ensure that no director is involved in setting his or her own remuneration. The Directors' Remuneration Report is set out on pages 72 to 83 of this annual report.

## **The Nominations Committee**

currently comprises Derek Netherton - 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 retiring by rotation 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 shortlist and conducts interviews. The final candidate is then subject to formal recommendation by the Committee and approval by the Board.

Each of the Committees is provided with sufficient resources to undertake its duties.

## Relations with shareholders Risk Management

The Chairman ensures that there is effective communication with individual and institutional shareholders through the announcement of regular trading updates, as well as general presentations after 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 following these presentations.

The Board considers that the AGM is the main forum for communication with investors, with the Chairman of the Board and its Committees available to answer any issues raised and any newly appointed directors being available to meet shareholders. 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 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.

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.

The Board is ultimately responsible for the Group's system of internal control, which covers all aspects of the business, and for reviewing its effectiveness. However, any such system can only be designed to manage, rather than eliminate, the risk of failure to achieve the Company's objectives and, therefore, is only able to provide reasonable, and not absolute, assurance against material misstatement or loss. The directors regularly review the risks to which the Company is exposed, as well as the operation and effectiveness of the system of internal controls. This is an ongoing process which involves the identification, evaluation and management of the significant risks faced by the Company. Key elements of the internal control system, which have been in place during the whole of the year under review and up to the date of approval of this annual report and accounts, are:

### **Board of Directors**

The Board takes a proactive approach to the management of all forms of risk, and views risk management as a vital constituent of its role. At each Board meeting, the effectiveness of the controls relating to the most significant risks (i.e. those which may restrict the Company's ability to meet its objectives) are monitored and reviewed and consideration is given as to whether any new material risks have emerged. The Audit Committee, on behalf of the Board, conducts a formal review of risks and risk management procedures and reports its findings to the Board. Remedial action is determined where appropriate. For some key

risks, where it is felt necessary, specialist advice is sought from external agencies and professional advisers. The Board also reviews, at least annually, the major risks facing the business and the level and scope of insurance cover maintained within the business. The Board receives reports from management on significant changes in the business and external environment which might affect the risk profile. It has also set in place a system of regular hierarchical reporting which provides for relevant details and assurances on the assessment and control of risks to be given to it.

### **Operating Board**

The Operating Board, answerable directly to the Chief Executive, is responsible for implementing decisions of the Main Board and providing protection against the major risks by various techniques, including strategic planning, monitoring, supervision and training.

### **Risk Committee**

The Risk Committee was chaired by the Chief Executive until June 2010 after which the Company Secretary and General Counsel took the Chair. The Risk Committee consists of all members of the Operating Board, and heads of certain management functions within the business. It has responsibility for analysing, assessing, measuring and understanding the Company's risk environment, as well as devising a sound risk management strategy for review and approval by the Board. The Risk Committee reports its findings and important changes to the Board on a regular basis through personal presentation, narrative reports and key performance indicators (internal

# Corporate Governance continued

and external to the organisation) and through the Audit Committee. The Risk Committee also feeds the results of its assessments back into the Operating Board's business planning process at least annually. The risks are assessed on a regular basis across all functional areas but, in particular, the areas of food safety, health and safety, competitive environment, information flow, asset protection and regulatory requirements.

## **Key Risks and Mitigating Actions**

The Board considers the key risks to the Company to be as follows:

### **Organisational**

The success of the Company is dependent upon the efforts and abilities of its employees. The Company has established remuneration packages that will attract, retain and motivate individuals with appropriate skills and experience. Organisational structure is regularly reviewed and there are group-wide processes for the training and development of all employees.

### **External factors**

Changes in the retail trading environment or in customer preferences could clearly have a significant effect on the business. The Company continually monitors market trends, the performance of its competitors and the performance of its own products and retail formats. Consumer research is carried out regularly and key market reports are monitored.

### **Operational**

The safety of our products, employees and customers is paramount. Detailed systems are in place to ensure that we are operating safely and these systems are subject to regular audit to ensure compliance. High priority is given to implementing any resulting recommendations.

Detailed plans are in place for all our major production facilities to maintain business continuity in the event of any potentially disruptive occurrence.

### **Policies and Procedures**

Policies and procedures, covering control issues across appropriate aspects of the business, are defined and communicated to the respective managers and staff at all levels. Adherence is monitored and reported upon.

### **Health and Safety**

The Company is committed to improving continuously the working environment, with the objective that accidents and work-related ill health should progressively be reduced. Health and Safety Officers and Occupational Nurses are appointed across the business and operational policies and procedures are subject to both internal and external audit. Targets are set and programmes are devised to implement them. This approach involves a rigorous health assessment, during which hazards are identified, risks assessed, control measures applied and improvement actions agreed to manage residual risks.

### **Financial Reporting**

The Company has in place a strong financial control environment. The Company's financial control procedures are set out in its Accounting Manual and are designed to ensure that assets are well-protected, authority levels for expenditure are clear, 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 independent inspection by the Company's internal audit team. A comprehensive budgeting process ensures that there are clear and stretching plans for all areas of the business and performance against these plans is reported weekly and monthly to the Company's Operating Board. Members of the finance team work alongside Operating Board directors and their functional teams to highlight performance issues and support achievement of financial objectives.

### **Whistle Blowing**

The Company has 'whistle blowing' procedures in place, which enable employees to bring matters to the attention of the senior management and for the confidential, proportionate and independent consideration and follow-up of any matter so raised. The 'whistle blowing' procedures are reviewed regularly by the Audit Committee, and the Chairman of the Audit Committee is the first line recipient of any matters that are raised through this policy.

## Internal Audit

During the year the Board provided additional resource to improve the effectiveness of the Internal Audit team. The function continues to review the performance of the Supply Chain and regional Retail functions across a range of financial and non-financial requirements, reporting findings to senior management and direct to the Audit Committee. The Internal Audit Manager reports to the Company Secretary & General Counsel, to improve functional independence, and has a standing invitation to attend all Audit Committee meetings, not only that part relating to the presentation of relevant audit reports.

The Internal Audit team has authority to access all areas of the business, senior management, and the Chairman of the Audit Committee as is seen fit.

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.

## Accountability, Audit and Going Concern

The Board acknowledges its responsibility to present a balanced and understandable assessment of the Company's position and prospects. This is fulfilled by the statements contained in the Chairman's statement and Chief Executive's report, which supplement the statutory accounts themselves. A statement of directors' responsibilities in respect of the preparation of accounts is given on page 32. A statement of auditor's responsibilities is given in the report of the auditor on page 33.

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 41).

## Fixed assets

In the opinion of the directors, the market value of all of the Group's properties is not significantly different from their historical net book amount.

## 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 2 January 2010 and 1 January 2011 (or at date of appointment if later) are set out in note 24 to the accounts. Details of directors' share options are set out in the Directors' Remuneration report on pages 72 to 83.

In accordance with the Company's Articles of Association, Derek Netherton, Kennedy McMeikan, Raymond Reynolds, and Iain Ferguson will retire from the Board at the AGM. Julie Baddeley, who is Chair of the Remuneration Committee, was appointed as a director in March 2005, and as at the date of the AGM will have been a director for in excess of six years. In accordance with the requirements of clause B.2.3 of the UK Corporate Governance Code, the Nominations Committee duly and rigorously considered the independence of Julie Baddeley and resolved that Julie was independent and should be invited to stand for re-election as a director. Accordingly, with all directors standing down, being eligible, they each offer themselves for re-election.

# Corporate Governance continued

## 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 he/she has 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.

## Substantial shareholdings

At 16 March 2011 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	Percentage of issued share capital
Aberforth Partners Limited	5,002,497	4.95
F&C Asset Management	5,001,366	4.94
Troy Asset Management	4,338,847	4.29
Legal and General Investment Management	4,104,434	4.06
A.J. Davison (as trustee of various settlements)	3,806,030	3.76
Norges Bank	3,133,000	3.10

## Authority to purchase shares

At the AGM on 13 May 2010, 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 has been used as to 2,834,569 shares as at 1 January 2011.

The balance remains in force until the conclusion of the AGM in 2011 or 11 August 2011, whichever is the earlier. It is the Board's intention to seek approval at the 2011 AGM for the renewal of this authority.

## Additional information

Following the implementation of the European Directive on Takeover Bids by certain provisions of the Companies Act 2006 (CA 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 15 March 2011, 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) 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 28.
- Where, under an employee share plan operated by the Company, participants are the beneficial owners 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 plus a proportion of the other directors must retire from office but each is eligible for re-election

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# Corporate Governance continued

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by the 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 buyback 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.
- 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 72 to 83. However, provisions in the employee share plans operated by the Company may allow options to be exercised early on a takeover.

## Payments to suppliers

Good relationships with our suppliers are an important factor in the success of the Group. Payments to suppliers are made in accordance with the Group's normal terms and conditions of business except where varied terms and conditions are agreed with individual suppliers, in which case these prevail. Where disputes arise, attempts are made to resolve them promptly and amicably to ensure delays in payment are kept to a minimum.

The average creditor payment period for the Company and the Group at 1 January 2011 was 41 days (2009: 41 days).

## 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.



# Auditors

## Auditor independence and policy on the use of the auditors for non-audit work

There are strict policies and procedures in place to control the use of external auditors in the provision of non-audit services. The Audit Committee keeps under review all non-audit services provided by the external auditors in order to seek to ensure that their independence and objectivity cannot be compromised. The Committee recognises that there are situations where it is in the Company's best interests to use the services of its external auditors for non-audit work but manages such appointments and will not allow any non-audit work that might, in the Committee's opinion, impair the auditors' objectivity or independence. In addition, the Audit Committee ensures that the external auditors have their own policies and are subject to professional standards designed to safeguard their independence as auditors. The Audit Committee has adopted a policy under which all use of the external auditors 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 the Committee believes that it is right to authorise non-audit fees in excess of this limit the Committee will approve such expenditure in advance of it being committed and provide an explanation to shareholders in the next directors' report.

The Audit Committee has reviewed whether, and is satisfied that, the Company's auditors, KPMG Audit Plc, continue 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 2010, non audit fees paid to KPMG Audit Plc and related KPMG operations amounted to £151,000 and related principally to taxation compliance services and pension scheme audits.

## Disclosure of information to auditors

Each of the directors who held office at the date of approval of this directors' report confirms that, so far as he/she is individually aware, there is no relevant audit information of which the Company's auditors are unaware; and that he/she has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

## Reappointment of auditors

In accordance with Section 489 of the Companies Act 2006, a resolution for the re-appointment of KPMG Audit Plc as auditors of the Company will be proposed at the forthcoming Annual General Meeting.

## By order of the Board

### Jonathan D Jowett

Company Secretary  
Greggs plc (CRN 502851)  
Fernwood House  
Clayton Road  
Jesmond  
Newcastle upon Tyne  
NE2 1TL

16 March 2011

# Statement of Directors' responsibilities

## 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;
- 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 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 accounts 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 the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole; and

- the directors' report, which incorporates the Chairman's statement, the Chief Executive's report and the Corporate 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.

**K. McMeikan**  
**R.J. Hutton**  
16 March 2011

# Independent auditor's report to the members of Greggs plc

We have audited the accounts of Greggs plc for the 52 weeks ended 1 January 2011 set out on pages 35 to 71. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the Parent Company accounts, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 32, the directors are responsible for the preparation of the accounts and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

## Scope of the audit of the accounts

A description of the scope of an audit of accounts is provided on the APB's web-site at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm).

## Opinion on accounts

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 1 January 2011 and of the Group's profit for the year then ended;
- the Group accounts have been properly prepared in accordance with 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.

## Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

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

## Matters on which we are required to report by exception

We have nothing to report in respect of the following:

- 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.
- Under the Listing Rules we are required to review:
  - the directors' statement, set out on page 32, in relation to going concern; and
  - the part of the Corporate Governance Statement on page 20 relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review; and
  - certain elements of the report to shareholders by the Board on directors' remuneration.

## Nick Plumb

(Senior Statutory Auditor)  
for and on behalf of KPMG Audit Plc, Statutory Auditor  
Chartered Accountants  
Quayside House  
110 Quayside  
Newcastle upon Tyne  
NE1 3DX

16 March 2011



## Consolidated income statement

for the 52 weeks ended 1 January 2011 (2009: 53 weeks ended 2 January 2010)

	Note	2010 £'000	2009 £'000
<b>Revenue</b>	1	<b>662,326</b>	658,186
Cost of sales		<b>(252,651)</b>	(252,284)
<b>Gross profit</b>		<b>409,675</b>	405,902
Distribution and selling costs		<b>(321,261)</b>	(321,686)
Administrative expenses		<b>(36,049)</b>	(35,783)
<b>Operating profit</b>		<b>52,365</b>	48,433
Finance income	5	<b>158</b>	346
<b>Profit before tax</b>	3-5	<b>52,523</b>	48,779
Income tax	7	<b>(14,589)</b>	(14,405)
<b>Profit for the financial year attributable to equity holders of the parent</b>		<b>37,934</b>	34,374
<b>Basic earnings per share</b>	8	<b>37.8p</b>	34.1p
<b>Diluted earnings per share</b>	8	<b>37.3p</b>	34.0p

## Consolidated statement of comprehensive income

for the 52 weeks ended 1 January 2011 (2009: 53 weeks ended 2 January 2010)

	Note	Group 2010 £'000	2009 £'000
<b>Profit for the financial year</b>		<b>37,934</b>	34,374
<b>Other comprehensive income</b>			
Actuarial gains/(losses) on defined benefit pension plans	19	<b>2,881</b>	(6,920)
Tax on items taken directly to equity	7	<b>(778)</b>	1,938
<b>Other comprehensive income for the financial year, net of income tax</b>		<b>2,103</b>	(4,982)
<b>Total comprehensive income for the financial year</b>		<b>40,037</b>	29,392

## Balance sheets

at 1 January 2011 (2009: 2 January 2010)

	Note	Group		Parent Company	
		2010 £'000	2009 £'000	2010 £'000	2009 £'000
<b>ASSETS</b>					
<b>Non-current assets</b>					
Intangible assets	9	433	579	433	579
Property, plant and equipment	10	226,150	211,155	226,743	211,748
Investments	11	–	–	4,987	4,987
		<b>226,583</b>	211,734	<b>232,163</b>	217,314
<b>Current assets</b>					
Inventories	12	11,883	11,886	11,883	11,886
Trade and other receivables	13	22,309	21,206	22,309	21,206
Cash and cash equivalents	14	20,790	34,619	20,790	34,619
Other investments	11	3,000	–	3,000	–
		<b>57,982</b>	67,711	<b>57,982</b>	67,711
<b>Total assets</b>		<b>284,565</b>	279,445	<b>290,145</b>	285,025
<b>LIABILITIES</b>					
<b>Current liabilities</b>					
Trade and other payables	15	(70,246)	(71,738)	(78,053)	(79,545)
Current tax liabilities	16	(6,282)	(8,857)	(6,282)	(8,857)
Provisions	20	(1,018)	(857)	(1,018)	(857)
		<b>(77,546)</b>	(81,452)	<b>(85,353)</b>	(89,259)
<b>Non-current liabilities</b>					
Other payables	17	(8,439)	(8,830)	(8,439)	(8,830)
Defined benefit pension liability	19	(8,764)	(12,332)	(8,764)	(12,332)
Deferred tax liability	18	(10,924)	(9,298)	(10,212)	(8,559)
Long term provisions	20	(2,665)	(3,296)	(2,665)	(3,296)
		<b>(30,792)</b>	(33,756)	<b>(30,080)</b>	(33,017)
<b>Total liabilities</b>		<b>(108,338)</b>	(115,208)	<b>(115,433)</b>	(122,276)
<b>Net assets</b>		<b>176,227</b>	164,237	<b>174,712</b>	162,749
<b>EQUITY</b>					
<b>Capital and reserves</b>					
Issued capital	21	2,023	2,080	2,023	2,080
Share premium account		13,533	13,533	13,533	13,533
Capital redemption reserve	21	416	359	416	359
Retained earnings		160,255	148,265	158,740	146,777
<b>Total equity attributable to equity holders of the parent</b>		<b>176,227</b>	164,237	<b>174,712</b>	162,749

The accounts on pages 35 to 71 were approved by the Board of directors on 16 March 2011 and were signed on its behalf by:

K. McMeikan

R.J. Hutton

Company Registered Number 502851

## Statements of changes in equity

for the 52 weeks ended 1 January 2011 (2009: 53 weeks ended 2 January 2010)

### Group

53 weeks ended 2 January 2010

	Note	Attributable to equity holders of the Company				Total
		Issued capital	Share premium	Capital redemption reserve	Retained earnings	
		£'000	£'000	£'000	£'000	
Balance at 28 December 2008		2,080	13,533	359	131,975	147,947
<b>Total comprehensive income for the year</b>						
Profit for the financial year		–	–	–	34,374	34,374
Other comprehensive income		–	–	–	(4,982)	(4,982)
Total comprehensive income for the year		–	–	–	29,392	29,392
<b>Transactions with owners, recorded directly in equity</b>						
Sale of own shares		–	–	–	1,182	1,182
Share-based payment transactions	19	–	–	–	982	982
Dividends to equity holders	21	–	–	–	(15,339)	(15,339)
Tax items taken directly to reserves	7	–	–	–	73	73
Total transactions with owners		–	–	–	(13,102)	(13,102)
Balance at 2 January 2010		2,080	13,533	359	148,265	164,237

52 weeks ended 1 January 2011

Balance at 3 January 2010		2,080	13,533	359	148,265	164,237
<b>Total comprehensive income for the year</b>						
Profit for the financial year		–	–	–	37,934	37,934
Other comprehensive income		–	–	–	2,103	2,103
Total comprehensive income for the year		–	–	–	40,037	40,037
<b>Transactions with owners, recorded directly in equity</b>						
Shares purchased and cancelled	21	(57)	–	57	(12,864)	(12,864)
Sale of own shares		–	–	–	734	734
Share-based payment transactions	19	–	–	–	642	642
Dividends to equity holders	21	–	–	–	(17,061)	(17,061)
Tax items taken directly to reserves	7	–	–	–	502	502
Total transactions with owners		(57)	–	57	(28,047)	(28,047)
Balance at 1 January 2011		2,023	13,533	416	160,255	176,227

## Statements of changes in equity

(continued)

### Parent Company

53 weeks ended 2 January 2010

	Note	Attributable to equity holders of the Company				Total
		Issued capital	Share premium	Capital redemption reserve	Retained earnings	
		£'000	£'000	£'000	£'000	
Balance at 28 December 2008		2,080	13,533	359	130,690	146,662
<b>Total comprehensive income for the year</b>						
Profit for the financial year	6	–	–	–	34,171	34,171
Other comprehensive income		–	–	–	(4,982)	(4,982)
Total comprehensive income for the year		–	–	–	29,189	29,189
<b>Transactions with owners, recorded directly in equity</b>						
Sale of own shares		–	–	–	1,182	1,182
Share-based payment transactions	19	–	–	–	982	982
Dividends to equity holders	21	–	–	–	(15,339)	(15,339)
Tax items taken directly to reserves	7	–	–	–	73	73
Total transactions with owners		–	–	–	(13,102)	(13,102)
Balance at 2 January 2010		2,080	13,533	359	146,777	162,749

52 weeks ended 1 January 2011

Balance at 3 January 2010		2,080	13,533	359	146,777	162,749
<b>Total comprehensive income for the year</b>						
Profit for the financial year	6	–	–	–	37,907	37,907
Other comprehensive income		–	–	–	2,103	2,103
Total comprehensive income for the year		–	–	–	40,010	40,010
<b>Transactions with owners, recorded directly in equity</b>						
Shares purchased and cancelled	21	(57)	–	57	(12,864)	(12,864)
Sale of own shares		–	–	–	734	734
Share-based payment transactions	19	–	–	–	642	642
Dividends to equity holders	21	–	–	–	(17,061)	(17,061)
Tax items taken directly to reserves	7	–	–	–	502	502
Total transactions with owners		(57)	–	57	(28,047)	(28,047)
Balance at 1 January 2011		2,023	13,533	416	158,740	174,712



## Statements of cashflows

for the 52 weeks ended 1 January 2011 (2009: 53 weeks ended 2 January 2010)

	Note	Group		Parent Company	
		2010	2009	2010	2009
		£'000	£'000	£'000	£'000
<b>Operating activities</b>					
Cash generated from operations (see page 40)		<b>77,826</b>	87,944	<b>77,826</b>	87,944
Income tax paid		<b>(15,814)</b>	(14,731)	<b>(15,814)</b>	(14,731)
<b>Net cash inflow from operating activities</b>		<b>62,012</b>	73,213	<b>62,012</b>	73,213
<b>Investing activities</b>					
Acquisition of property, plant and equipment		<b>(44,672)</b>	(30,296)	<b>(44,672)</b>	(30,296)
Proceeds from sale of property, plant and equipment		<b>815</b>	2,368	<b>815</b>	2,368
Interest received	5	<b>158</b>	346	<b>158</b>	346
Acquisition of other investments	11	<b>(3,000)</b>	–	<b>(3,000)</b>	–
<b>Net cash outflow from investing activities</b>		<b>(46,699)</b>	(27,582)	<b>(46,699)</b>	(27,582)
<b>Financing activities</b>					
Sale of own shares		<b>734</b>	1,182	<b>734</b>	1,182
Shares purchased and cancelled	21	<b>(12,864)</b>	–	<b>(12,864)</b>	–
Dividends paid	21	<b>(17,061)</b>	(15,339)	<b>(17,061)</b>	(15,339)
Government grants received		<b>49</b>	1,087	<b>49</b>	1,087
<b>Net cash outflow from financing activities</b>		<b>(29,142)</b>	(13,070)	<b>(29,142)</b>	(13,070)
<b>Net (decrease) / increase in cash and cash equivalents</b>		<b>(13,829)</b>	32,561	<b>(13,829)</b>	32,561
Cash and cash equivalents at the start of the year	14	<b>34,619</b>	2,058	<b>34,619</b>	2,058
<b>Cash and cash equivalents at the end of the year</b>	14	<b>20,790</b>	34,619	<b>20,790</b>	34,619

## Statements of cashflows

for the 52 weeks ended 1 January 2011 (2009: 53 weeks ended 2 January 2010)

(continued)

	Note	Group		Parent Company	
		2010	2009	2010	2009
		£'000	£'000	£'000	£'000
<b>Cash flow statement – cash generated from operations</b>					
Profit for the financial year		<b>37,934</b>	34,374	<b>37,907</b>	34,171
Amortisation	9	<b>146</b>	107	<b>146</b>	107
Depreciation	10	<b>28,965</b>	27,218	<b>28,965</b>	27,218
Impairment	11	–	–	–	203
Loss on sale of property, plant and equipment		<b>869</b>	10	<b>869</b>	10
Release of government grants		<b>(437)</b>	(228)	<b>(437)</b>	(228)
Share based payment expenses	19	<b>642</b>	982	<b>642</b>	982
Finance income	5	<b>(158)</b>	(346)	<b>(158)</b>	(346)
Income tax expense	7	<b>14,589</b>	14,405	<b>14,616</b>	14,405
Decrease in inventories		<b>3</b>	266	<b>3</b>	266
(Increase) / decrease in receivables		<b>(1,103)</b>	1,492	<b>(1,103)</b>	1,492
(Decrease) / increase in payables		<b>(2,467)</b>	11,103	<b>(2,467)</b>	11,103
Decrease in pension liability		<b>(687)</b>	(321)	<b>(687)</b>	(321)
Decrease in provisions		<b>(470)</b>	(1,118)	<b>(470)</b>	(1,118)
<b>Cash from operating activities</b>		<b>77,826</b>	87,944	<b>77,826</b>	87,944

# Notes to the consolidated accounts

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## 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 16 March 2011.

### (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.

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 business review on pages 6 to 31. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Chief Executive’s report on pages 8 to 11. 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 Group has considerable financial resources and the business continues to be strongly cash generative. As a consequence, the directors believe that the Group is well placed to manage its business risk successfully despite the current uncertain economic outlook.

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 transition date on an IFRS basis, as no significant acquisitions had taken place during the previous 10 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. From 3 January 2010 the following standards, amendments and interpretations became effective and were adopted by the Group:

- Amendments to IAS 39 *Financial Instruments: Recognition and Measurement: Eligible Hedged Items* – this amendment clarifies the existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship;
- Revised IFRS 3 *Business Combinations* – this standard significantly changed the way in which business combinations are accounted for. This change will only impact the Company if an acquisition takes place in the future.
- Amendments to IAS 27 *Consolidated and Separate Financial Statements* – the amendment reflects changes to the accounting for non-controlling interest.

The adoption of the above has not had a significant impact on the Group’s profit for the year or equity.

# Notes to the consolidated accounts

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(continued)

## Significant accounting policies (continued)

### (b) Basis of preparation (continued)

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:

#### *Lease classification*

Judgement has to be applied as to whether the Group's shop leases are operating leases or finance leases – see note 22 for how this is determined.

#### *Post retirement benefits*

The determination of the pension cost and defined benefit obligation of the Group's defined benefit pension scheme depends on the selection of certain assumptions including the discount rate, inflation rate, mortality rates and expected return on scheme assets. Differences arising from actual experience or future changes in assumptions will be reflected in future years. The key assumptions made for 2010 are given in note 19.

#### *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.

#### *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*

Provision is required in respect of closed shops for which the Group has on-going lease commitments. Management exercise judgement as to whether the shop will be sublet to a third party taking into account current market conditions and, if so, for how long and at what rent, in order to estimate the future net holding cost to the Group until the lease can be exited. This estimate is then discounted (where the impact would be material) at a rate that reflects the current time value of money and the risks specific to the liability. In respect of our exit from the Belgian operation in 2008 a provision remains for the potential recourse of leases taken over by the new owner.

### (c) Basis of consolidation

The consolidated accounts include the results of Greggs plc and its subsidiary undertakings for the 52 weeks ended 1 January 2011. The comparative period is the 53 weeks ended 2 January 2010.

#### (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.

## **Significant accounting policies (continued)**

### **(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 asset is accounting 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 profit and loss as incurred.

# Notes to the consolidated accounts

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(continued)

## Significant accounting policies (continued)

### (g) Property, plant and equipment (continued)

#### (iii) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful economic lives of each part of an item of property, plant and equipment. Freehold and long leasehold properties are depreciated by equal instalments over a period of 40 years. Land is not depreciated. The depreciation rates are as follows:

<b>Short leasehold properties</b>	10%
<b>Plant:</b>	
General	10%
Computers	20% – 33 $\frac{1}{3}$ %
Motor vehicles	20% – 25%
Delivery trays	33 $\frac{1}{3}$ %
<b>Shop fixtures and fittings:</b>	
General	10%
Electronic equipment	20%

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 less. 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.

## Significant accounting policies (continued)

### (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 Group and Company's obligation in respect of defined benefit post-employment plans, including pension plans, is calculated by estimating the amount of the future benefit that employees have earned in return for their service in the current and prior years. That benefit is discounted to determine its present value and any unrecognised past service costs, and the fair value of any plan assets is deducted. The discount rate is the yield at the balance sheet date on AA credit rated bonds that have maturity dates approximating to the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

# Notes to the consolidated accounts

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(continued)

## Significant accounting policies (continued)

### (o) Employee benefits (continued)

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the income statement on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the income statement.

The Group and Company recognise actuarial gains and losses in full in the year in which they occur in the statement of changes in equity.

#### (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) Closed shops

Provision is made for vacant and partly sublet properties for the shorter of the remaining period of the lease and the period until, in the directors' opinion, they will be able to exit the lease commitment. Significant assumptions are applied in making these calculations and such provisions are assessed by reference to the best available information at the balance sheet date.

### (q) Revenue

#### (i) Goods sold

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.

### (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.



## **Significant accounting policies (continued)**

### **(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.

### **(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.

Temporary differences relating to the initial recognition of assets or liabilities that affect neither accounting nor taxable profit are not provided for, other than in a business combination.

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.

# Notes to the consolidated accounts

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(continued)

## Significant accounting policies (continued)

### (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:

- Amendment to IAS 32 *Financial Instruments: Presentation: Classification of Rights Issues* applicable for accounting periods beginning on or after 1 February 2010.
- Amendment to IFRIC 14 *Prepayments of a Minimum Funding Requirement* applicable for accounting periods beginning on or after 1 January 2011.
- Revised IAS 24 *Related Party Disclosure* applicable for accounting periods beginning on or after 1 January 2011.
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* applicable for accounting periods beginning on or after 1 July 2010.

These standards amendments are not currently expected to have a significant impact on the accounts when they are adopted.

### 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 comprise the profit and loss account for the company as a whole.

Throughout 2009 and 2010 the Group has progressively been reorganised into a centrally managed business with an integrated supply chain. During 2009 the Group’s 11 operating divisions were reorganised into seven retail regions, each reporting to the Group Retail Director. These retail regions, and their predecessor divisions, have similar economic characteristics, products, customers and production and distribution methods and have therefore been aggregated into a single reportable segment. The segment results, as reported to the chief operating decision maker, are calculated under the principles of IFRS.

Products and services – the Group sells a consistent range of fresh bakery goods, sandwiches and drinks in its shops.

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 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 financial statements no additional numerical disclosures are necessary.

## **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.

### **Trade and other receivables**

The Group's exposure to credit risk is considered not to be significant as sale of goods is for cash. Other receivables are primarily prepaid rent and rates as well as amounts owed from HM Revenue & Customs in respect of VAT. The credit risk on remaining other receivables and trade receivables is therefore not considered significant.

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 all 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 the capital expenditure budget. The Group has substantial cash resources at the year end, and if necessary, would be able to obtain substantial debt funding.

The Group has overdraft facilities of £5,000,000 and €3,000,000 of which £5,000,000 and €3,000,000 was undrawn at 1 January 2011 (2009: £5,000,000 and €3,000,000).

### **Market risk**

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

Given that, as explained below, market risk is not significant, sensitivity analysis would not be meaningful.

### **Currency risk**

Following the exit from the Belgian operation 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. Net financial income in the year was £158,000 (2009: £346,000).

### **Equity prices**

The Group has no equity investments other than its subsidiaries.

# Notes to the consolidated accounts

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(continued)

## 2. Financial Risk Management (continued)

### Capital management

The Board defines capital as the equity of the Group. The Group remains 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 growing 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 asset comprises 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 1 January 2011 (2009: £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)

	2010	2009
	£'000	£'000
Depreciation on owned property, plant and equipment	28,965	27,218
Loss on disposal of fixed assets	869	10
Release of government grants	(437)	(228)
Payments under operating leases – property rents	41,837	42,041
Auditors' remuneration		
Audit of these accounts	153	179
Audit of previous year's accounts	30	–
Other services pursuant to such legislation	3	3
Audit of pension schemes' accounts	7	9
Other services relating to taxation	137	94
All other services	4	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. Personnel expenses

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

	Group and Parent Company	
	2010	2009
	Number	Number
Management	718	647
Administration	438	415
Production	2,845	2,718
Shop	15,180	15,264
	<b>19,181</b>	<b>19,044</b>

The aggregate personnel costs of these persons were as follows:

		Group and Parent Company	
	Note	2010	2009
		£'000	£'000
Wages and salaries		251,982	236,811
Compulsory social security contributions		19,238	18,462
Pension costs – defined contribution plans	19	3,538	3,351
Pension costs – defined benefit plans	19	(87)	379
Equity settled transactions	19	642	982
		<b>275,313</b>	<b>259,985</b>

## Notes to the consolidated accounts

(continued)

### 4. Personnel expenses (continued)

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

	2010	2009
	£'000	£'000
Cost of sales	1,513	1,389
Distribution and selling costs	3,607	3,313
Administrative expenses	698	641
	<b>5,818</b>	<b>5,343</b>

### 5. Finance income

	2010	2009
	£'000	£'000
Interest income on cash balances	165	209
Foreign exchange (loss) / gain	(7)	137
	<b>158</b>	<b>346</b>

### 6. Profit attributable to Greggs plc

Of the Group profit for the year, £37,907,000 (2009: £34,171,000) 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.

### 7. Income tax expense

#### Recognised in the income statement

	2010	2009
	£'000	£'000
<b>Current tax expense</b>		
Current year	16,200	16,410
Adjustment for prior years	(2,961)	(1,157)
	<b>13,239</b>	<b>15,253</b>
<b>Deferred tax expense</b>		
Origination and reversal of temporary differences	(222)	(1,299)
Adjustment for prior years	1,572	451
	<b>1,350</b>	<b>(848)</b>
Total income tax expense in income statement	<b>14,589</b>	<b>14,405</b>

## 7. Income tax expense (continued)

### Reconciliation of effective tax rate

	2010	2010	2009	2009
		£'000		£'000
Profit before tax		<b>52,523</b>		48,779
Income tax using the domestic corporation tax rate	<b>28.0%</b>	<b>14,706</b>	28.0%	13,658
Non-deductible expenses	<b>1.1%</b>	<b>582</b>	0.9%	437
Non-qualifying depreciation	<b>1.4%</b>	<b>728</b>	2.3%	1,120
Disposal of non-qualifying assets	<b>(0.1%)</b>	<b>(38)</b>	(0.2%)	(104)
Impact of change in deferred tax rate to 27%	<b>(0.8%)</b>	<b>(405)</b>	–	–
Adjustment re prior years	<b>(1.8%)</b>	<b>(984)</b>	(1.5%)	(706)
Total income tax expense in income statement	<b>27.8%</b>	<b>14,589</b>	29.5%	14,405

On 28 July 2010 a reduction in the rate of corporation tax from 28% to 27% was substantively enacted to take effect from 1 April 2011. Any timing differences which reverse before 1 April 2011 will be charged / credited at 28% and any timing differences which exist at 1 April 2011 will reverse at 27%.

### Tax recognised directly in equity

	2010	2010	2010	2009
	Current tax	Deferred tax	Total	Total
	£'000	£'000	£'000	£'000
Relating to equity-settled transactions	1	(503)	<b>(502)</b>	(73)
Relating to defined benefit plans – actuarial gains / (losses)	–	778	<b>778</b>	(1,938)
	1	275	<b>276</b>	(2,011)

## 8. Earnings per share

### Basic earnings per share

Basic earnings per share for the year ended 1 January 2011 is calculated by dividing profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year ended 1 January 2011 as calculated below.

### Diluted earnings per share

Diluted earnings per share for the year ended 1 January 2011 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 1 January 2011 as calculated below.

## Notes to the consolidated accounts

(continued)

### 8. Earnings per share (continued)

#### Profit attributable to ordinary shareholders

	2010	2009
	£'000	£'000
Profit for the financial year attributable to equity holders of the parent	<b>37,934</b>	34,374
Basic earnings per share	<b>37.8p</b>	34.1p
Diluted earnings per share	<b>37.3p</b>	34.0p

#### Weighted average number of ordinary shares

	2010	2009
	Number	Number
Issued ordinary shares at start of year	<b>103,990,470</b>	103,990,470
Effect of own shares held	<b>(2,753,645)</b>	(3,170,821)
Effect of shares purchased and cancelled	<b>(959,689)</b>	–
<b>Weighted average number of ordinary shares during the year</b>	<b>100,277,136</b>	100,819,649
Effect of share options on issue	<b>1,326,346</b>	427,864
<b>Weighted average number of ordinary shares (diluted) during the year</b>	<b>101,603,482</b>	101,247,513

### 9. Intangible assets

#### Group and Parent Company

	Software £'000
<b>Cost</b>	
Balance at 29 December 2008, 2 January 2010 and 1 January 2011	686
<b>Amortisation</b>	
Balance at 29 December 2008	–
Amortisation charge for the year	107
Balance at 2 January 2010	107
<b>Balance at 3 January 2010</b>	<b>107</b>
<b>Amortisation charge for the year</b>	<b>146</b>
<b>Balance at 1 January 2011</b>	<b>253</b>
<b>Carrying amounts</b>	
At 28 December 2008	–
At 2 January 2010	579
<b>At 3 January 2010</b>	<b>579</b>
<b>At 1 January 2011</b>	<b>433</b>



## 10. Property, plant and equipment

### Group

	Land and buildings £'000	Plant and equipment £'000	Fixtures and fittings £'000	Under construction £'000	Total £'000
<b>Cost</b>					
Balance at 28 December 2008	99,994	89,088	159,523	13,891	362,496
Additions	1,244	10,265	17,834	953	30,296
Disposals	(298)	(3,987)	(6,659)	–	(10,944)
Reclassification	14,844	–	–	(14,844)	–
Balance at 2 January 2010	115,784	95,366	170,698	–	381,848
<b>Balance at 3 January 2010</b>	<b>115,784</b>	<b>95,366</b>	<b>170,698</b>	<b>–</b>	<b>381,848</b>
<b>Additions</b>	<b>812</b>	<b>10,543</b>	<b>26,445</b>	<b>7,844</b>	<b>45,644</b>
<b>Disposals</b>	<b>(38)</b>	<b>(5,165)</b>	<b>(8,070)</b>	<b>–</b>	<b>(13,273)</b>
<b>Reclassification</b>	<b>(354)</b>	<b>4,834</b>	<b>(4,480)</b>	<b>–</b>	<b>–</b>
<b>Balance at 1 January 2011</b>	<b>116,204</b>	<b>105,578</b>	<b>184,593</b>	<b>7,844</b>	<b>414,219</b>
<b>Depreciation</b>					
Balance at 28 December 2008	17,076	55,146	79,819	–	152,041
Depreciation charge for the year	2,318	9,043	15,857	–	27,218
Disposals	(80)	(3,887)	(4,599)	–	(8,566)
Balance at 2 January 2010	19,314	60,302	91,077	–	170,693
<b>Balance at 3 January 2010</b>	<b>19,314</b>	<b>60,302</b>	<b>91,077</b>	<b>–</b>	<b>170,693</b>
<b>Depreciation charge for the year</b>	<b>2,995</b>	<b>9,865</b>	<b>16,105</b>	<b>–</b>	<b>28,965</b>
<b>Disposals</b>	<b>(38)</b>	<b>(5,011)</b>	<b>(6,540)</b>	<b>–</b>	<b>(11,589)</b>
<b>Reclassification</b>	<b>738</b>	<b>1,799</b>	<b>(2,537)</b>	<b>–</b>	<b>–</b>
<b>Balance at 1 January 2011</b>	<b>23,009</b>	<b>66,955</b>	<b>98,105</b>	<b>–</b>	<b>188,069</b>
<b>Carrying amounts</b>					
At 28 December 2008	82,918	33,942	79,704	13,891	210,455
At 2 January 2010	96,470	35,064	79,621	–	211,155
<b>At 3 January 2010</b>	<b>96,470</b>	<b>35,064</b>	<b>79,621</b>	<b>–</b>	<b>211,155</b>
<b>At 1 January 2011</b>	<b>93,195</b>	<b>38,623</b>	<b>86,488</b>	<b>7,844</b>	<b>226,150</b>

## Notes to the consolidated accounts

(continued)

### 10. Property, plant and equipment (continued)

#### Parent Company

	Land and Buildings	Plant and equipment	Fixtures and fittings	Under construction	Total
	£'000	£'000	£'000	£'000	£'000
<b>Cost</b>					
Balance at 28 December 2008	100,504	89,621	160,011	13,891	364,027
Additions	1,244	10,265	17,834	953	30,296
Disposals	(298)	(3,987)	(6,659)	–	(10,944)
Reclassification	14,844	–	–	(14,844)	–
Balance at 2 January 2010	116,294	95,899	171,186	–	383,379
<b>Balance at 3 January 2010</b>	<b>116,294</b>	<b>95,899</b>	<b>171,186</b>	<b>–</b>	<b>383,379</b>
<b>Additions</b>	<b>812</b>	<b>10,543</b>	<b>26,445</b>	<b>7,844</b>	<b>45,644</b>
<b>Disposals</b>	<b>(38)</b>	<b>(5,165)</b>	<b>(8,070)</b>	<b>–</b>	<b>(13,273)</b>
<b>Reclassification</b>	<b>(354)</b>	<b>4,834</b>	<b>(4,480)</b>	<b>–</b>	<b>–</b>
<b>Balance at 1 January 2011</b>	<b>116,714</b>	<b>106,111</b>	<b>185,081</b>	<b>7,844</b>	<b>415,750</b>
<b>Depreciation</b>					
Balance at 28 December 2008	17,353	55,416	80,210	–	152,979
Depreciation charge for the year	2,318	9,043	15,857	–	27,218
Disposals	(80)	(3,887)	(4,599)	–	(8,566)
Balance at 2 January 2010	19,591	60,572	91,468	–	171,631
<b>Balance at 3 January 2010</b>	<b>19,591</b>	<b>60,572</b>	<b>91,468</b>	<b>–</b>	<b>171,631</b>
<b>Depreciation charge for the year</b>	<b>2,995</b>	<b>9,865</b>	<b>16,105</b>	<b>–</b>	<b>28,965</b>
<b>Disposals</b>	<b>(38)</b>	<b>(5,011)</b>	<b>(6,540)</b>	<b>–</b>	<b>(11,589)</b>
<b>Reclassification</b>	<b>738</b>	<b>1,799</b>	<b>(2,537)</b>	<b>–</b>	<b>–</b>
<b>Balance at 1 January 2011</b>	<b>23,286</b>	<b>67,225</b>	<b>98,496</b>	<b>–</b>	<b>189,007</b>
Carrying amounts					
At 28 December 2008	83,151	34,205	79,801	13,891	211,048
At 2 January 2010	96,703	35,327	79,718	–	211,748
<b>At 3 January 2010</b>	<b>96,703</b>	<b>35,327</b>	<b>79,718</b>	<b>–</b>	<b>211,748</b>
<b>At 1 January 2011</b>	<b>93,428</b>	<b>38,886</b>	<b>86,585</b>	<b>7,844</b>	<b>226,743</b>

## 10. Property, plant and equipment (continued)

### Land and buildings

The carrying amount of land and building comprises:

	Group		Parent Company	
	2010	2009	2010	2009
	£'000	£'000	£'000	£'000
Freehold property	92,411	95,490	92,644	95,723
Long leasehold property	626	883	626	883
Short leasehold property	158	97	158	97
	<b>93,195</b>	96,470	<b>93,428</b>	96,703

### Property, plant and equipment under construction

Assets under construction at 1 January 2011 comprised new bakeries and equipment for new shops not yet fitted.

## 11. Investments

### Non-current investments

#### Parent Company

#### Shares in subsidiary undertakings £'000

#### Cost

As at 28 December 2008, 2 January 2010 and 1 January 2011 **5,828**

#### Impairment

As at 28 December 2008 **638**

Impairment charge for the year **203**

As at 2 January 2010 **841**

**As at 3 January 2010 841**

Impairment charge for the year **–**

**As at 1 January 2011 841**

#### Carrying amount

As at 28 December 2008 5,190

As at 2 January 2010 4,987

**As at 3 January 2010 4,987**

**As at 1 January 2011 4,987**

## Notes to the consolidated accounts

(continued)

### 11. Investments (continued)

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	
	2010	2009
	£'000	£'000
Fixed rate bond	3,000	–

### 12. Inventories

	Group and Parent Company	
	2010	2009
	£'000	£'000
Raw materials and consumables	9,105	8,999
Work in progress	2,778	2,887
	<b>11,883</b>	<b>11,886</b>

### 13. Trade and other receivables

	Group and Parent Company	
	2010	2009
	£'000	£'000
Trade receivables	1,690	709
Other receivables	3,880	5,944
Prepayments	16,739	14,553
	<b>22,309</b>	<b>21,206</b>

No amounts are overdue and there is no provision for impairment in the current or prior year.

#### 14. Cash and cash equivalents

	Group and Parent Company	
	2010	2009
	£'000	£'000
Cash and cash equivalents	<b>20,790</b>	34,619

#### 15. Trade and other payables

	Group		Parent Company	
	2010	2009	2010	2009
	£'000	£'000	£'000	£'000
Trade payables	<b>33,382</b>	35,167	<b>33,382</b>	35,167
Amounts owed to subsidiary undertakings	–	–	<b>7,807</b>	7,807
Other taxes and social security	<b>7,439</b>	7,122	<b>7,439</b>	7,122
Other payables	<b>13,326</b>	13,236	<b>13,326</b>	13,236
Accruals and deferred income	<b>15,631</b>	15,748	<b>15,631</b>	15,748
Deferred government grants	<b>468</b>	465	<b>468</b>	465
	<b>70,246</b>	71,738	<b>78,053</b>	79,545

#### 16. Current tax liability

The current tax liability of £6,282,000 in the Group and the Parent Company (2009: Group and Parent Company £8,857,000) represents the estimated amount of income taxes payable in respect of current and prior years.

#### 17. Other payables

	Group and Parent Company	
	2010	2009
	£'000	£'000
Deferred government grants	<b>8,439</b>	8,830

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.

## Notes to the consolidated accounts

(continued)

### 18. Deferred tax assets and liabilities

#### Group

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Property, plant and equipment	–	–	<b>15,485</b>	14,385	<b>15,485</b>	14,385
Employee benefits	<b>(3,571)</b>	(4,004)	–	–	<b>(3,571)</b>	(4,004)
Short term temporary differences	<b>(990)</b>	(1,083)	–	–	<b>(990)</b>	(1,083)
Tax (assets) / liabilities	<b>(4,561)</b>	(5,087)	<b>15,485</b>	14,385	<b>10,924</b>	9,298

The movements in temporary differences during the year ended 2 January 2010 were as follows:

	Balance at 28 December 2008 £'000	Recognised in income £'000	Recognised in equity £'000	Balance at 2 January 2010 £'000
Property, plant and equipment	14,828	(443)	–	14,385
Employee benefits	(1,800)	(196)	(2,008)	(4,004)
Short term temporary differences	(874)	(209)	–	(1,083)
	12,154	(848)	(2,008)	9,298

The movements in temporary differences during the year ended 1 January 2011 were as follows:

	Balance at 3 January 2010 £'000	Recognised in income £'000	Recognised in equity £'000	Balance at 1 January 2011 £'000
Property, plant and equipment	14,385	1,100	–	<b>15,485</b>
Employee benefits	(4,004)	157	276	<b>(3,571)</b>
Short term temporary differences	(1,083)	93	–	<b>(990)</b>
	9,298	1,350	276	<b>10,924</b>

## 18. Deferred tax assets and liabilities (continued)

### Parent Company

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2010	2009	2010	2009	2010	2009
	£'000	£'000	£'000	£'000	£'000	£'000
Property, plant and equipment	–	–	<b>14,773</b>	13,646	<b>14,773</b>	13,646
Employee benefits	<b>(3,571)</b>	(4,004)	–	–	<b>(3,571)</b>	(4,004)
Short term temporary differences	<b>(990)</b>	(1,083)	–	–	<b>(990)</b>	(1,083)
<b>Tax (assets) / liabilities</b>	<b>(4,561)</b>	<b>(5,087)</b>	<b>14,773</b>	13,646	<b>10,212</b>	8,559

The movements in temporary differences during the year ended 2 January 2010 were as follows:

	Balance at 28 December 2008	Recognised in income	Recognised in equity	Balance at 2 January 2010
	£'000	£'000	£'000	£'000
Property, plant and equipment	14,089	(443)	–	13,646
Employee benefits	(1,800)	(196)	(2,008)	(4,004)
Short term temporary differences	(874)	(209)	–	(1,083)
	<b>11,415</b>	<b>(848)</b>	<b>(2,008)</b>	<b>8,559</b>

The movements in temporary differences during the year ended 1 January 2011 were as follows:

	Balance at 3 January 2010	Recognised in income	Recognised in equity	Balance at 1 January 2011
	£'000	£'000	£'000	£'000
Property, plant and equipment	13,646	1,127	–	<b>14,773</b>
Employee benefits	(4,004)	157	276	<b>(3,571)</b>
Short term temporary differences	(1,083)	93	–	<b>(990)</b>
	<b>8,559</b>	<b>1,377</b>	<b>276</b>	<b>10,212</b>

## Notes to the consolidated accounts

(continued)

### 19. Employee benefits

#### Defined benefit plan

The Group makes contributions to a defined benefit (final salary) plan that provides pension benefits for employees upon retirement.

	Group and Parent Company	
	2010	2009
	£'000	£'000
Present value of funded obligations	<b>(92,544)</b>	(87,211)
Fair value of plan assets	<b>83,780</b>	74,879
Recognised liability for defined benefit obligations	<b>(8,764)</b>	(12,332)

This scheme was closed to future accrual in 2008 .

#### *Inflationary growth assumptions*

In July 2010 the UK Government announced its intention to pass legislation amending the statutory revaluation of pension scheme benefits and increases to pensions in payment under defined benefit pension schemes from RPI to CPI measures. A change to CPI would affect the Group's defined benefit scheme by reducing the deficit and therefore the net liability recognised in the balance sheet. After reviewing UITF Abstract 48 the directors believe that no adjustment is appropriate at 1 January 2011. The directors have continued to apply prudent assumptions in relation to benefit increases.

#### *Liability for defined benefit obligations*

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

	Group and Parent Company	
	2010	2009
	£'000	£'000
Opening defined benefit obligation	<b>87,211</b>	69,563
Interest cost	<b>4,993</b>	4,387
Actuarial losses	<b>2,800</b>	15,538
Benefits paid	<b>(2,460)</b>	(2,277)
	<b>92,544</b>	87,211



## 19. Employee benefits (continued)

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

	Group and Parent Company	
	2010	2009
	£'000	£'000
Opening fair value of plan assets	74,879	63,830
Expected return	5,080	4,008
Actuarial gains	5,681	8,618
Contributions by employer	600	700
Benefits paid	(2,460)	(2,277)
Closing fair value of plan assets	83,780	74,879

The amounts recognised in the income statement are as follows:

	Group	
	2010	2009
	£'000	£'000
Interest on obligation	4,993	4,387
Expected return on plan assets	(5,080)	(4,008)
Total included in employee benefit expense	(87)	379

The (credit) / charge is recognised in the following line items of the income statement:

	Group	
	2010	2009
	£'000	£'000
Administrative expenses	(87)	379
	(87)	379

Cumulative actuarial 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 £15,750,000 (2009: net losses of £18,631,000).

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

	Group and Parent Company	
	2010	2009
	£'000	£'000
Equities	58,705	60,340
Bonds	20,404	10,079
Property	1,411	1,201
Cash/other	3,260	3,259
	83,780	74,879
Actual return on plan assets	10,761	12,626

The plan assets include ordinary shares issued by the Company with a fair value of £2,441,000 (2009: £2,283,000).

The expected rates of return on plan assets are determined by reference to relevant indices. The overall expected rate of return is calculated by weighting the individual rates in accordance with the anticipated balance in the plan's investment portfolio.

## Notes to the consolidated accounts

(continued)

### 19. Employee benefits (continued)

*Principal actuarial assumptions (expressed as weighted averages):*

#### Group and Parent Company

	2010	2009
Discount rate	5.5%	5.8%
Expected rate of return on plan assets	6.5%	6.9%
Future salary increases	n/a	n/a
Future pension increases	3.0%	3.0%

Mortality rate assumptions have been taken from the A92 pre-retirement and AP92c2025 post-retirement tables. The mortality assumptions take account of experience to date, and assumptions for further improvements in life expectancy of scheme members.

Examples of the resulting life expectancies are as follows:

Life expectancy from age 65 (years)	2010		2009	
	Male	Female	Male	Female
Member aged 65 in 2010	21.4	23.9	21.4	23.9
Member aged 65 in 2030	23.4	25.7	23.4	25.7

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

#### *History of plan*

The history of the plan for current and prior years is as follows:

	Group and Parent Company				
	2010	2009	2008	2007	2006
	£'000	£'000	£'000	£'000	£'000
Present value of defined benefit obligation	(92,544)	(87,211)	(69,563)	(78,461)	(74,823)
Fair value of plan assets	83,780	74,879	63,830	77,781	72,940
Deficit	(8,764)	(12,332)	(5,733)	(680)	(1,883)

## 19. Employee benefits (continued)

*Experience adjustments:*

	Group and Parent Company									
	2010		2009		2008		2007		2006	
	£'000		£'000		£'000		£'000		£'000	
Experience adjustments on plan liabilities	<b>(2,800)</b>	<b>3.0%</b>	(15,538)	17.8%	5,133	7.4%	2,207	2.8%	180	0.2%
Experience adjustments on plan assets	<b>5,681</b>	<b>6.8%</b>	8,618	11.5%	(17,747)	27.8%	(797)	1.0%	2,561	3.5%
Net actuarial experience adjustments	<b>2,881</b>		(6,920)		(12,614)		1,410		2,741	

The Group expects to contribute £nil to its defined benefit plan in 2011.

### 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 £3,538,000 (2009: £3,351,000) 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, June 2008 and September 2009 and an Executive Share Option Scheme, which granted options in September 2003, March 2004, August 2004, September 2004, August 2006, April 2008 and April 2009.

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 Long Term Incentive Plan in 2006 and grants of options have been made under this scheme in March 2007, March 2008 and August 2008.

The Company established a Performance Share Plan in 2009 and a grant of options has been made under this scheme in April 2010.

# Notes to the consolidated accounts

(continued)

## 19. Employee benefits (continued)

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 7	March 2000	Senior employees	170p	1,502,000	Three years' service and EPS growth of 2% over RPI on average over those three years	7 to 10 years
Executive Share Option Scheme 8	April 2002	Senior employees	352p	88,000	Three years' service and EPS growth of 2-4% over RPI on average over those three years	7 to 10 years
Executive Share Option Scheme 9	September 2003	Senior employees	310p	82,500	Three years' service and EPS growth of 2% over RPI on average over those three years	10 years
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
Savings Related Share Option Scheme 9	September 2006	All employees	371p	662,770	Three years' service	3.5 years
Long Term Incentive Plan 1	March 2007	Senior executives	nil	30,780	Three years' service and EPS growth of 3-7.5% over RPI on average over those three years	10 years
Long Term Incentive Plan 2	March 2008	Senior executives	nil	126,600	Three years' service and EPS growth of 3-10% 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
Savings Related Share Option Scheme 10	June 2008	All employees	393p	761,020	Three years' service	3.5 years
Long Term Incentive Plan 3	August 2008	Senior executives	nil	180,210	Three years' service and EPS growth of 3-10% 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
Savings Related Share Option Scheme 11	September 2009	All employees	354p	717,837	Three years' service	3.5 years
Performance Share Plan 1	April 2010	Senior executives	nil	270,521	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

## 19. Employee benefits (continued)

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

	2010		2009	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
Outstanding at the beginning of the year	353p	5,273,920	366p	4,063,500
Lapsed during the year	371p	(420,053)	408p	(1,008,453)
Exercised during the year	302p	(171,127)	364p	(510,964)
Granted during the year	nil	270,521	355p	2,729,837
Outstanding at the end of the year	334p	4,953,261	353p	5,273,920
Exercisable at the end of the year	386p	696,147	379p	994,061

The options outstanding at 1 January 2011 have an exercise price in the range of £nil to £4.57 and have a weighted average contractual life of 6 years. The options exercised during the year had a weighted average market value of £4.74 (2009: £4.24).

The fair value of services received in return for share options granted are 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. The contractual life of the option is used as an input into this model.

	2010	2009	
	Performance Share Plan 1	Executive Share Option Scheme 14	Savings Related Share Option Scheme 11
	April 2010	April 2009	September 2009
Fair value at grant date	442p	47p	64p
Share price	490p	356p	393p
Exercise price	nil	356p	354p
Expected volatility	26.2%	25.0%	25.1%
Option life	3 years	3 years	3 years
Expected dividends	3.39%	4.18%	4.26%
Risk free rate	1.88%	2.20%	1.95%

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.

Share options are granted under a service condition and, for grants to senior employees, a non-market performance condition. Such conditions are not taken into account in the grant date fair value measurement of the services received. There are no market conditions associated with the share option grants.

## Notes to the consolidated accounts

(continued)

### 19. Employee benefits (continued)

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

	2010	2009
	£'000	£'000
Share options granted in 2006	84	161
Share options granted in 2007	(10)	(24)
Share options granted in 2008	30	575
Share options granted in 2009	398	270
Share options granted in 2010	140	–
Total expense recognised as employee costs	642	982

### 20. Provisions

#### Group and Parent Company

	Closed Shop Provision	
	2010	2009
	£'000	£'000
Balance at start of year	4,153	5,271
Additional provision in the year	451	1,263
Utilised in year	(379)	(2,381)
Provisions reversed during the year	(542)	–
Balance at end of year	3,683	4,153
Included in current liabilities	1,018	857
Included in non-current liabilities	2,665	3,296
	3,683	4,153

The closed shop provision relates to costs in respect of the closure of shops and in particular the onerous lease and other commitments associated with the closure of a shop. Included within the provision is £199,000 in respect of possible recourse on leases transferred to the purchaser on the sale of the Belgian operation.

The key area of uncertainty relates to the net future rental costs to be incurred on closed shops and, in particular, whether the shops can be sublet until lease exit. The provision assumes that subletting is unlikely in the current climate. The provision is expected to be substantially utilised within three years such that the impact of discounting would not be material.

## 21. Capital and reserves

### Share capital and share premium

	Ordinary shares	
	2010	2009
	Number	Number
In issue and fully paid at start of year – ordinary shares of 2p (2009: 20p)	103,990,470	10,399,047
Purchased and cancelled	(2,834,569)	–
Additional shares resulting from ten for one share split – ordinary shares of 2p	–	93,591,423
In issue and fully paid at the end of the year – ordinary shares of 2p	101,155,901	103,990,470

At 1 January 2011 the authorised share capital comprised 250,000,000 ordinary shares with a par value of 2p each (2009: 250,000,000 with a par value of 2p each).

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. During 2009 2,834,569 shares with a nominal value of £57,000 were purchased for cancellation for a consideration of £12,864,000.

### 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 £11,327,000 (2009: £12,060,000) 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 2,677,620 shares (2009: 2,895,636 shares) with a market value at 1 January 2011 of £12,451,000 (2009: £12,596,000) 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, Greggs Long Term Incentive Plan 2006 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.

### Dividends

The following tables analyse dividends when paid and the year to which they relate:

	2010	2009
	Per share	Per share
	pence	pence
2008 final dividend *	–	10.0p
2009 interim dividend	–	5.2p
2009 final dividend	11.4p	–
2010 interim dividend	5.5p	–
	16.9p	15.2p

\*This amount has been restated to reflect the ten for one share split which took place during 2009.

## Notes to the consolidated accounts

(continued)

### 21. Capital and reserves (continued)

The proposed final dividend in respect of 2010 amounts to 12.7 pence per share (£12,847,000). This proposed dividend is subject to approval at the Annual General Meeting and has not been included as a liability in these accounts.

	2010	2009
	£'000	£'000
2008 final dividend	–	10,097
2009 interim dividend	–	5,242
2009 final dividend	11,553	–
2010 interim dividend	5,508	–
	<b>17,061</b>	<b>15,339</b>

### 22. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2010	2009
	£'000	£'000
Less than one year	37,047	34,827
Between one and five years	100,655	101,821
More than five years	28,229	33,081
	<b>165,931</b>	<b>169,729</b>

The Group leases the majority of its shops under operating leases. The leases typically run for a period of 10 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.



## 23. Capital commitments

During the year ended 1 January 2011, the Group entered into contracts to purchase property, plant and equipment for £6,004,000 (2009: £804,000). These commitments are expected to be settled in the following financial year.

## 24. Related parties

### Identity of related parties

The Group has a related party relationship with its subsidiaries (see note 11) and its directors and executive officers.

### Trading transactions with subsidiaries – Group

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are therefore not disclosed.

### Trading transactions with subsidiaries – Parent Company

	Amounts owed to related parties		Amounts owed by related parties	
	2010	2009	2010	2009
	£'000	£'000	£'000	£'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 £638,000 (see Corporate Social Responsibility on pages 12 to 17).

### 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)	
	2010 (or date of cessation if earlier)	2009 (or date of appointment if later)	2010 (or date of cessation if earlier)	2009 (or date of appointment if later)
Kennedy McMeikan	64,681	57,860	–	–
Richard Hutton	35,237	27,117	1,650,000	1,650,000
Raymond Reynolds	52,010	43,730	–	–
Derek Netherton (non-executive)	10,000	10,000	–	–
Bob Bennett (non-executive)	–	–	–	–
Julie Baddeley (non-executive)	3,000	–	–	–
Roger Whiteside (non-executive)	12,253	12,253	–	–
Iain Ferguson (non-executive)	10,000	10,000	–	–

Details of directors' share options, emoluments, pension benefits and other non-cash benefits can be found in the Directors' Remuneration report on pages 72 to 83. Total remuneration is included in personnel expenses (see note 4).

There have been no changes since 1 January 2011 in the directors' interests noted above.

# Directors' Remuneration Report

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## Introduction

This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 (the "Regulations"). This report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and the relevant provisions of the Companies Act 2006 and describes how the Board has applied the Principles of Good Governance relating to directors' remuneration.

The Regulations require the auditors to report to the Company's members on the "auditable part" of the Directors' Remuneration Report and to state whether, in their opinion, that part of the report has been properly prepared. This report has, therefore, been divided into separate sections for audited and unaudited information.

## Unaudited information

The Remuneration Committee of the Board (the "Committee") sets the remuneration and terms of appointment of the executive directors and the Chairman on behalf of the Board.

The committee met five times during 2010 with each member attending as follows:

Name	Number of meetings held whilst a Committee member	Number of meetings attended by a Committee member
Julie Baddeley	5	5
Bob Bennett	5	5
Roger Whiteside	5	5
Iain Ferguson	5	5

At these meetings, amongst other items, the Committee considered:

- introduction of a Share Retention Policy for executive directors;
- setting of objectives for the executive directors ensuring risk forms a key part of these; and
- measures and targets to ensure that executive directors were not incentivised to take inappropriate levels of risk.

In addition, each year the Committee considers Greggs' total remuneration policy for executive directors in the context of market and best practice and levels of remuneration throughout the Company.

Andrew Davison (Company Secretary until June 2010), Jonathan Jowett (Company Secretary and General Counsel from June 2010), Nicola Bailey (Group People Director until March 2010) and Roisin Currie (Group People Director from January 2010) have supported the Committee in their deliberations, along with external consultants, PWC.

## General Policy on Directors' Remuneration

The Committee's policy is to provide competitive remuneration packages that will attract, retain and motivate individuals with appropriate skills and experience with the incentive to add sustainable long-term growth and value that will best serve the interests of the Company, its shareholders, its employees and customers. Basic salaries and total packages are set to reflect the market. They are regularly benchmarked by external consultants against the median level payments made to executives in similar roles in companies of comparative size, sector and complexity (which exercise was last conducted by Monks Partnership in 2009 and will be undertaken again in 2011).

The Committee seeks to structure bonus arrangements that will align the interests of executive directors with those of shareholders. The Committee considers corporate performance on risk, governance, environmental and social issues when setting the remuneration of executive directors.

## Overview of Remuneration Policy

	Objective	Performance period	Basis of delivery
Base Salary	<ul style="list-style-type: none"> <li>Reflects market levels based on role and individual skill and experience</li> </ul>	<ul style="list-style-type: none"> <li>Reviewed annually</li> </ul>	<ul style="list-style-type: none"> <li>Individual performance and contribution recognised to ensure market competitiveness</li> </ul>
Annual Bonus (inc Profit Share). Maximum earning opportunity of 90% of salary for all executive directors from 2010	<ul style="list-style-type: none"> <li>Incentivises achievement of annual targets and objectives consistent with the short to medium term strategic needs of the business</li> </ul>	<ul style="list-style-type: none"> <li>Reviewed annually</li> </ul>	<ul style="list-style-type: none"> <li>Balanced approach based on stretching financial (profit and sales) targets and personal objectives (related to functional KPI's)</li> </ul>
LTIP (Performance Share Plan). Maximum awards of 90% of salary for CEO and 70% of salary for other executive directors	<ul style="list-style-type: none"> <li>Incentivises long-term value creation</li> <li>Alignment with shareholders' interests</li> <li>Retention incentive</li> </ul>	<ul style="list-style-type: none"> <li>Annual award</li> <li>Three year performance period</li> </ul>	<ul style="list-style-type: none"> <li>Award subject to a combination of demanding TSR and EPS targets</li> <li>Maximum reward will only occur for upper quartile performance</li> <li>Minimum vesting 25%</li> </ul>
Pension	<ul style="list-style-type: none"> <li>Provides a market competitive level of provision with good flexibility while minimising risk to the Company</li> </ul>	<ul style="list-style-type: none"> <li>Cost increases in line with salary growth</li> </ul>	<ul style="list-style-type: none"> <li>Defined contribution benefits</li> </ul>

### Base Salary

For 2011 an increase of 2.2% has been applied to the executive directors' salaries. This has been applied in line with the award given to all employees across the business, rather than being reviewed alongside market salary growth.

### Annual Bonus

The Committee seeks to structure annual bonus arrangements so as to encourage sustainable growth in the Company's profits; and is satisfied that the structure will not raise environmental, social or governance risks by inadvertently encouraging irresponsible behaviour. Each executive director has a personal objective to ensure they monitor and take appropriate action to minimise key business risks. The Committee's policy is that all bonus payments to executive directors should be non-pensionable. For 2010 the maximum target bonus levels were established on the following basis:

Maximum 2010 bonus achievable				
	Maximum bonus achievable as % of basic salary	Financial Target (Profit) as % of total bonus opportunity	Financial Target (Sales) as % of total bonus opportunity	Personal Objectives (related to functional KPI's) as % of total bonus opportunity
Kennedy McMeikan	90% of salary	60% of bonus	20% of bonus	20% of bonus
Richard Hutton	90% of salary	60% of bonus	20% of bonus	20% of bonus
Raymond Reynolds	90% of salary	60% of bonus	20% of bonus	20% of bonus

# Directors' Remuneration Report

(continued)

Whilst each element could be measured separately, failure to exceed the profit level achieved in 2009 would have resulted in no bonus being earned for either the profit or sales elements in 2010.

Against the 2010 annual bonus targets a payment of 56.6% of annual salary has been earned by Kennedy McMeikan, 56.6% by Richard Hutton and 56.6% by Raymond Reynolds.

For 2011 the maximum target bonus levels will continue to be established on the basis above, which the Remuneration Committee consider to be suitably challenging.

Whilst each element can be measured separately, failure to exceed the profit level achieved in 2010 will result in no bonus being earned for either the profit or sales elements in 2011.

The Committee have also introduced a claw-back clause in the Bonus Scheme rules as follows;

The Committee reserve the right to 'claw-back' any portion of the bonus payment that has been paid in error should it come to light, at a future date, that there was a material misstatement of the operating profit resulting in a significant over-payment.

## Share Based Remuneration

### Performance Share Plan

Shareholder approval was obtained in 2009 for the introduction of a Performance Share Plan (PSP) from 2010.

The introduction of the Performance Share Plan in 2010 under which an award of shares was made in line with the level awarded under the previous Long Term Incentive Plan (LTIP), restricted for three years and vesting in full or part subject to the achievement of a combination of EPS growth and TSR targets, is intended to provide a greater focus on achieving key long-term business goals and increased shareholder value.

The awards under the PSP made in 2010 have the following targets set:

	EPS		TSR	
	<b>Annual compound growth</b>	<b>Proportion of award vesting (% opportunity)</b>	<b>Position relative to comparator group of FTSE 250 Food Producers, Retailers &amp; Leisure Companies</b>	<b>Proportion of award vesting (% opportunity)</b>
	Less than RPI + 3%	Nil	Below median	Nil
Threshold	RPI + 3%	12.5%	At median	12.5%
Maximum	RPI + 8%	50%	Upper quartile	50%

The comparator group used in connection with the PSP was established following a comprehensive review, including advice taken from Monks, and consists of 28 companies who are General Retailers, Food Producers/Manufacturers or Leisure Companies and who were considered by the Remuneration Committee to be the most appropriate from the FTSE 250. They are:

• Brown (N) Group	• Kesa Electricals
• Carpetright	• Marston's
• Cranswick	• Millennium & Copthorne Hotels
• Dairy Crest	• Mitchells & Butlers
• Debenhams	• Mothercare
• Dignity	• Northern Foods
• Domino's Pizza	• Premier Foods
• DSG International	• Rank Group
• Dunelm Group	• Restaurant Group
• Game Group	• Robert Wiseman Dairies
• Greene King	• Sports Direct Intl.
• Halfords Group	• Tate & Lyle
• HMV Group	• Wetherspoon (JD)
• Inchcape	• WH Smith

These targets and the comparator group will remain in place for the 2011 scheme.

### **Other share based incentive schemes**

#### **LTIP**

Under this scheme, the Committee had discretion to invite the participants (including executive directors) to utilise a proportion (not more than 50%) of their post tax annual bonus (including profit share) to acquire shares in the Company and then grant nil cost options to match the pre-tax value of the sum invested. These nil cost options were exercisable normally after three years, and only if certain performance criteria have been met.

For the award in 2008 the performance targets were set at average growth in earnings per share of 3% above the RPI for a 1:1 match and 10% above the RPI for a 2:1 match, providing a further stretch in order to achieve the maximum award. Following the three year performance period the conditions have been met to the extent that a 1.007:1 match will be awarded resulting in options over 14,329 shares becoming exercisable by Richard Hutton and over 12,637 shares by Raymond Reynolds.

Given the very low level of bonus payments awarded following the year 2008, the Committee did not offer participation in this LTIP in 2009. As previously outlined the Performance Share Plan has replaced this LTIP from 2010, and therefore the Committee will offer no further participation in this previous scheme.

#### **Executive Share Option Scheme**

There have also been occasional grants to the executive directors of options over shares in the Company, pursuant to one or more of the share option schemes operated through the Committee. These include both Inland Revenue approved and unapproved long-term share incentive schemes, designed to encourage the executive directors and other employees to hold shares in the Company and to enhance share values.

No such awards were granted in 2010.

# Directors' Remuneration Report

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(continued)

In accordance with institutional investor guidelines, the total number of new shares and shares held in treasury over which the Company may grant options is limited and the Company has chosen to allocate a significant proportion of the shares available to the Company's Savings Related Share Option Scheme open to all employees, including executive directors. Any future grants of executive share options to executive directors will be based upon the need to secure individuals of appropriate calibre, having regard to prevailing market conditions at the date of appointment or to help to align the interests of executive directors with those of shareholders, especially if the LTIP or PSP is not available to a particular individual, or where the Committee considers it appropriate.

The above policies enable the executive directors to receive potentially significant benefits in addition to their basic salaries, but only if value has been created for shareholders. The Committee considers that, although the non-performance related elements of the executive directors' remuneration packages are substantial, the performance related elements are significant in terms of providing motivation to the executive directors to improve shareholder value.

## Policy on Performance Conditions

The performance conditions attaching to share options granted to the executive directors under the Company's Senior Executive Share Option Schemes have varied according to the date of grant. Such conditions are set by the Committee to establish challenging performance objectives linked to shareholder return. Executive directors are not eligible to have executive share options granted in the same year as participation in the PSP. The Committee intends that if any executive share options are granted in the future, performance conditions will continue to be settled on this basis. Details of the performance conditions for options currently outstanding are set out in the section headed 'Share Options' below.

Whether or not performance conditions attached to share options have been met is tested by the Committee, which compares the actual performance of the Company with relevant published statistics and, if necessary, obtains advice from external consultants in order to reach its conclusion.

No performance conditions have been attached to options granted pursuant to the Company's Savings Related Share Option Scheme, which is available for all employees. The principal purpose of this scheme is to encourage employees at all levels within the Company to participate in, and to understand better, the growth in value of the Company and the rules of that scheme require that all options granted must be on the same terms.

Performance criteria in relation to the performance based annual cash bonuses payable to the executive directors are set by the Committee each year in accordance with the general remuneration policy set out above.

## Policy on Pensions

Until the scheme was closed to further accrual from 1 April 2008, executive directors earned pension benefits under the Greggs 1978 Retirement & Death Benefit Scheme, the Company's defined benefit scheme. This scheme, which required a contribution of 6.6% of pensionable salaries from members, provided for up to two-thirds of final pensionable salary, dependant on length of pensionable service. Since 1 April 2008, the Company has paid contributions to the Company's money purchase defined contribution pension schemes for all executive directors.

Due to the changes in the annual allowance for tax relief on pensions, effective from 6th April 2011, the Committee has decided to allow the executive directors a degree of flexibility with regards to how they receive their pension contribution, with the principle that there should be no additional charge borne by the Company.

Should the executive directors wish to cap their pension contribution at £50,000, in line with the new annual allowance, they can do so and the balance of this contribution will be paid as a supplement in addition to their salary on a monthly basis.

This supplement will be subject to tax and NI. The employer's NI charge will be borne by the executive director to ensure there are no additional charges to the Company.

The executive directors will be able to make this choice on an annual basis.

The remuneration adjustment will be disclosed in the Remuneration Report in the 2011 Annual Report and Accounts.

### **Share Retention Guidelines**

The Committee has introduced Share Retention Guidelines for executive directors. These are effective from 1 January 2011 and require each executive director to build up a shareholding of 100% of their base salary in a five year period through shares matured and granted via the LTIP or PSP and a percentage of bonus payment to be given as shares at the discretion of the Committee or chosen to be taken as shares by the executive director. This will be reviewed by the Committee in March each year.

### **Policy on Service Contract Notice Periods and Payments on Early Termination**

The Company's policy on the duration of directors' contracts is that:

- the Chief Executive's service contract is terminable on one year's notice served by either the Company or the director;
- other executive directors service contracts are terminable on one year's notice served by the Company or by six months' notice served by the director;
- future executive directors' will be engaged on terms necessary to secure individuals of appropriate calibre, having regard to prevailing market conditions at that time;
- non-executive directors are appointed subject to the Company's Articles of Association, which require them to retire and to seek re-election at the first AGM after appointment. Any non-executive director who has served on the Board for over nine years must seek re-election annually. Each year one half of the remaining directors, being those who have been longest in office since last re-election, and any other director who has not been elected or re-elected at either of the two preceding AGMs, must retire and seek re-election. The Nominations Committee advises the Board as to whether a particular director, whose turn it is to retire by rotation, should be nominated for re-election; and
- it is the Company's policy to seek mitigation of entitlements on termination and the Company does not normally make payments beyond its contractual obligations, including any payment in respect of notice to which a director is entitled.

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 retire by rotation, or if not re-appointed at such time.

# Directors' Remuneration Report

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(continued)

## Directors' service contracts

Details of the executive directors' service contracts or letters of appointment are as follows:

### Executive Directors

Kennedy McMeikan has a service contract with the Company dated 8 April 2008. His continuous period of service with the Company commenced on 1 June 2008.

Richard Hutton has a service contract with the Company dated 7 April 2006. His continuous period of service with the Company commenced on 1 January 1998.

Raymond Reynolds has a service contract with the Company dated 18 December 2006. His continuous period of service with the Company commenced on 1 December 1986.

In addition to their basic salaries, each is entitled to participate in the Company's profit sharing scheme available to all employees. They are also entitled to additional benefits including membership of the company pension scheme, the use of a motor car, private medical insurance, life assurance, permanent health insurance and a contribution towards telephone expenses.

### 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 (other than the Chairman) are set, after consultation with the Chairman, by a committee of the Board consisting only of the executive directors (Kennedy McMeikan, Richard Hutton and Raymond Reynolds) who periodically seek advice from external consultants as to the appropriate market rates applicable. Such advice was last obtained in 2009 from Monks Partnership. An increase in fees of 2.2% was awarded to the Committee Chairman and the non-executive directors, effective January 2011. This was applied in line with the award given to all employees across the business and did not reflect the average growth in fees across the market.

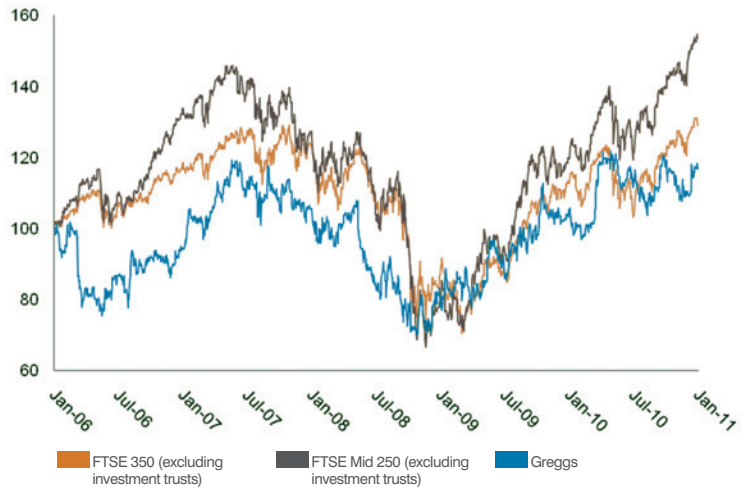
The basic non-executive fees for 2011 are £37,814 per annum, including membership of committee(s) and an additional £5,621 for Chairmanship of the Audit or Remuneration Committee(s).

The non-executive directors do not have service contracts with the Company. However, each of them does have a letter of appointment. These are dated 25 February 2002 for Derek Netherton, 1 December 2003 for Bob Bennett, 1 March 2005 for Julie Baddeley, 21 February 2008 for Roger Whiteside and 31 March 2009 for Iain Ferguson. The terms of appointment of each non-executive director require that they seek re-election on a regular basis in accordance with the Articles of Association of the Company (see above). The fees payable to the non-executive directors cover all normal duties. In exceptional circumstances, where significant additional time commitment is required, the Board (or a duly authorised committee) may award additional fees. No right of compensation exists where the office is terminated, for whatever reason.



## 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.



## Audited information

This information relates to both the Parent Company and the Group.

## Directors' emoluments and compensation

The following tables set out details of the emoluments and compensation received or receivable by each director (excluding pension contributions details of which are set out below).

	Salary/fees set for	Salary/fees paid in	Estimated value of benefits	Annual profit share	Annual bonus	Total
	2011	2010	2010	2010	2010	2010
	£	£	£	£	£	£
<b>Executive</b>						
Kennedy McMeikan	456,834	447,000	25,550	6,752	221,045	700,347
Richard Hutton	265,720	260,000	20,777	10,170	122,330	413,277
Raymond Reynolds	237,104	232,000	12,602	9,075	109,155	362,832
<b>Chairman</b>						
Derek Netherton	123,406	120,750	–	–	–	120,750
<b>Non-executive</b>						
Bob Bennett	43,435	42,500	–	–	–	42,500
Julie Baddeley	43,435	42,500	–	–	–	42,500
Roger Whiteside	37,814	37,000	–	–	–	37,000
Iain Ferguson	37,814	37,000	–	–	–	37,000
<b>Total</b>	<b>1,245,562</b>	<b>1,218,750</b>	<b>58,929</b>	<b>25,997</b>	<b>452,530</b>	<b>1,756,206</b>

# Directors' Remuneration Report

(continued)

	Salary/fees paid in	Estimated value of benefits	Annual profit share	Annual bonus	Total
	2009	2009	2009	2009	2009
	£	£	£	£	£
<b>Executive</b>					
Kennedy McMeikan	438,000	24,353	4,022	114,238	580,613
Richard Hutton	242,000	20,500	10,192	40,628	313,320
Raymond Reynolds	227,000	12,617	9,560	36,521	285,698
<b>Chairman</b>					
Derek Netherton	115,000	–	–	–	115,000
<b>Non-executive</b>					
Bob Bennett	40,000	–	–	–	40,000
Julie Baddeley	40,000	–	–	–	40,000
Roger Whiteside	35,500	–	–	–	35,500
Iain Ferguson (from 13 May 2009)	26,625	–	–	–	26,625
Mike Darrington (resigned 13 May 2009)	14,204	–	–	–	14,204
<b>Total</b>	<b>1,178,329</b>	<b>57,470</b>	<b>23,774</b>	<b>191,387</b>	<b>1,450,960</b>

## Share options

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

	Number of options during the year				At 1 January 2011 Number	Exercise price £	Date of grant	Date from which exer- cisable	Expiry date	Scheme
	At 2 January 2010 Number	Granted Number	Exercised Number	Lapsed Number						
Kennedy McMeikan	80,000	–	–	–	80,000	3.56	Apr 09	Aug 12	Apr 19	Executive
	276	–	–	–	276	3.54	Oct 09	Nov 12	Apr 13	SAYE
Richard Hutton	26,750	–	–	–	26,750	4.07	Aug 06	Aug 09	Aug 16	Executive
	80,000	–	–	–	80,000	3.56	Apr 09	Aug 12	Apr 19	Executive
	430	–	–	–	430	3.938	Apr 08	Jun 11	Dec 11	SAYE
	410	–	–	–	410	3.54	Oct 09	Nov 12	Apr 13	SAYE
Raymond Reynolds	26,750	–	–	–	26,750	4.07	Aug 06	Aug 09	Aug 16	Executive
	80,000	–	–	–	80,000	3.56	Apr 09	Aug 12	Apr 19	Executive
	430	–	–	–	430	3.938	Apr 08	Jun 11	Dec 11	SAYE
	410	–	–	–	410	3.54	Oct 09	Nov 12	Apr 13	SAYE

The executive directors also have a potential beneficial interest in the Greggs Employee Benefit Trust.

On each of the grants awarded under the Senior Executive Share Option Schemes, the exercise of the options granted was made conditional upon the growth in the Company's basic earnings per share over a three year period. For options granted in 1999, earnings per share growth must be greater than 2% per annum above growth in the Retail Prices index. On the grant awarded in August 2006 the exercise of the options granted was made conditional upon the average annual growth in the Company's basic earnings per share over the three years from grant being greater than the average annual growth in the Retail Price Index over the three years. If earnings per share growth exceeds RPI growth by 3% then half of the options will be exercisable, if earnings per share growth exceeds RPI growth by 5% then all of the options will be exercisable and if earnings per share growth exceeds RPI growth by between 3% and 5% the number of options exercisable is pro-rated on a straight-line basis. On the grant awarded in April 2009 the exercise of the options granted was made conditional upon the average annual growth in the Company's basic earnings per share over the three years from grant being greater than the average annual growth in the Retail Price Index over the three years. If earnings per share growth exceeds RPI growth by 3% then half of the options will be exercisable, if earnings per share growth exceeds RPI growth by 7% then all of the options will be exercisable and if earnings per share growth exceeds RPI growth by between 3% and 7% the number of options exercisable is pro-rated on a straight-line basis.

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

The following table sets out details of the Long-Term Incentive Plan and Performance Share Plan share options (all of which were granted at nil cost to the executive director concerned and subject to the performance conditions referred to on page 74) held by, or granted to, each director during the year, according to the register of director's interests:

	Date of grant	Options held under the plan at 2 January 2010	Options granted during 2010	Options exercised during 2010	Options lapsed during 2010	Options held under the plan at 1 January 2011	Market price of each share at date of grant £	Market price at date of exercise £	Gain on exercise £	Date from which exercisable	Expiry date	Scheme
Kennedy McMeikan	Aug 08	180,210	-	-	-	180,210	3.762	-	-	Aug 11	Aug 18	LTIP
	Apr 10	-	82,169	-	-	82,169	4.896	-	-	Apr 13	Apr 20	PSP
Richard Hutton	Mar 07	8,120	-	8,120	-	-	4.746	4.553	36,970	Mar 10	Mar 17	LTIP
	Mar 08	28,460	-	-	-	28,460	4.475	-	-	Mar 11	Mar 18	LTIP
	Apr 10	-	37,173	-	-	37,173	4.896	-	-	Apr 13	Apr 20	PSP
Raymond Reynolds	Mar 07	6,100	-	6,100	-	-	4.746	4.553	27,773	Mar 10	Mar 17	LTIP
	Mar 08	25,100	-	-	-	25,100	4.475	-	-	Mar 11	Mar 18	LTIP
	Apr 10	-	33,169	-	-	33,169	4.896	-	-	Apr 13	Apr 20	PSP

No non-executive director has any options to acquire shares in the Company.

The mid-market price of ordinary shares in the Company as at 1 January 2011 was £4.69. The highest and lowest mid-market prices of ordinary shares during the financial year were £4.01 and £4.96 respectively.

## Pensions

Until the scheme was closed to further accrual from 1 April 2008 Richard Hutton and Raymond Reynolds earned pension benefits under the Greggs 1978 Retirement and Death Benefit Scheme, the Company's defined benefit scheme. This scheme, which required a contribution of 6.6% of pensionable salaries from members, provided for up to two-thirds of final pensionable salary, dependant on length of pensionable service. From 1 April 2008 all executive directors received contributions into the Company's money purchase defined contributions pension schemes. No pension benefits were earned or accrued in respect of any non-executive director.

# Directors' Remuneration Report

(continued)

## Defined benefit scheme

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

Executive Director	Date of birth	Date service commenced	Accrued annual pension entitlement at age 65 as at 1 January 2011 £	Accrued annual pension entitlement at age 65 as at 2 January 2010 £	Increase in accrued pension entitlement for the year £	Increase in accrued pension entitlement for the year net of inflation of 4.6% £	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 4.6% 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.

Executive Director	Cash equivalent transfer value as at 2 January 2010 £	Cash equivalent transfer value as at 1 January 2011 £	Increase in the cash equivalent transfer value since 2 January 2010 £
Richard Hutton	<b>172,649</b>	<b>191,497</b>	–
Raymond Reynolds	<b>872,910</b>	<b>901,932</b>	–

Note: cash equivalent transfer values have been calculated in accordance with Actuaries Guidance Note GN11 and the increase 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.

## Money purchase schemes

The Company has paid the contributions set out below to the Greggs Senior Executive Pension Scheme for the benefit of executive directors during this financial year.

	<b>Contribution in respect of 2010</b>	Contribution in respect of 2009
	£	£
Executive Director		
Kennedy McMeikan	<b>67,050</b>	65,700
Richard Hutton	<b>33,800</b>	31,460
Raymond Reynolds	<b>32,480</b>	29,699

### Approval by Shareholders

At the Annual General Meeting of the Company to be held on 11 May 2011, a resolution approving this report is to be proposed as an ordinary resolution.

This report was approved by the Board on 16 March 2011.

Signed on behalf of the Board

**Julie Baddeley**

Director

Chair of Remuneration Committee

16 March 2011

## 10 Year History

	2001	2002	2003	2004	2005	2006 †	2007 ~	2008 §	2009	2010
				(as restated)*						
Turnover (£'000)	377,556	422,600	456,978	504,186	533,435	550,849	586,303	628,198	658,186	662,326
Earnings before interest and tax (£'000)	31,597	35,334	39,167	45,763	47,143	38,747	49,909	48,613	48,433	52,365
Profit on ordinary activities before taxation (£'000)	32,742	36,666	40,472	47,751	50,159	40,239	51,143	49,470	48,779	52,523
Shareholders' funds (£'000)	103,554	119,965	134,150	157,156	181,475	144,891	145,594	147,947	164,237	176,227
Earnings per share (pence) ^	19.0	20.9	23.1	27.1	28.2	24.1	34.3	33.6	34.1	37.8
Dividend per share (pence) ^	6.5	7.3	8.0	9.6	10.6	11.6	14.0	14.9	16.6	18.2
Capital expenditure (£'000)	27,385	42,143	32,361	25,090	41,687	30,023	42,343	40,758	30,296	45,644
Net book value of fixed assets (£'000)	124,123	148,184	160,704	163,110	180,826	184,325	196,783	210,455	211,155	226,150
Number of shops in operation at year end	1,144	1,202	1,231	1,263	1,319	1,336	1,368	1,409	1,419	1,487

\* restated for the transition to IFRSs † includes £3.5m Bakers Oven Restructuring costs ~ includes one-off property gains of £2.2m § includes £4.3m exceptional credit ^ All years prior to 2009 adjusted to take account of the ten for one share split which took place during 2009.

## Secretary and Registered Office

Jonathan D Jowett, LL.M. Solicitor  
 Fernwood House  
 Clayton Road  
 Jesmond  
 Newcastle upon Tyne  
 NE2 1TL

## Advisers

### Bankers

National Westminster Bank Plc  
 149 High Street  
 Gosforth  
 Newcastle upon Tyne  
 NE3 1HA

### Auditors

KPMG Audit Plc  
 Quayside House  
 110 Quayside  
 Newcastle upon Tyne  
 NE1 3DX

### Stockbrokers

UBS  
 1 Finsbury Avenue  
 London  
 EC2M 2PA

Brewin Dolphin Securities Ltd  
 Commercial Union House  
 39 Pilgrim Street  
 Newcastle upon Tyne  
 NE1 6RQ

### Solicitors

Muckle LLP  
 Time Central  
 32 Gallowgate  
 Newcastle upon Tyne  
 NE1 4BF

### Registrars

Capita Registrars  
 Bourne House  
 34 Beckenham Road  
 Beckenham  
 Kent  
 BR3 4TU

Fernwood House,  
Clayton Road, Jesmond,  
Newcastle Upon Tyne  
NE2 1TL

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