GREGGS

Always Fresh. Always Tasty.®

Progress

Greggs plc Annual Report and Accounts 2014

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

Strategic progress

2014 has been a year of significant progress for Greggs as we moved forward with our new strategy to focus on the food-on-the-go market. Improvements in our products, customer service and value for money offering together with shop refurbishments have delivered sustained like-for-like sales growth ahead of our expectations. Coupled with the structural reduction in our cost base implemented earlier in the year this has resulted in an accelerated recovery in profits.

Whilst more favourable market conditions have played a part in this performance we are confident that the changes we have made are an important first step as we build a strong platform for continued progress in the years ahead.

▶ More detail: *Strategy* P6-P15

Financial highlights

Total sales[1] up 5.5%
to £804.0 million.

Full year like-for-like sales[2]
up 4.5%.

Pre-tax profit[3]
before exceptional items up 41.1% to £58.3 million.

Diluted earnings per share[3]
before exceptional items up 41.8% to 43.4 pence.

Dividend per share
up 12.8% to 22.0p.

[1] Including impact of the 53rd week.
[2] Like-for-like sales in own shops (excluding franchises) with a full year's trading history.
[3] Before exceptional pre-tax charge of £8.5m (2013: £8.1m).

▶ More detail: *Financial Review* P20-P21

Making progress against

Great tasting fresh food

Great shopping experience

Simple and efficient operations

Improvement through change

our strategic plan

Great tasting fresh food

We believe in 'Always Fresh. Always Tasty.' freshly prepared food at great value for money.

Turn to page 8 to find out more.

Great shopping experience

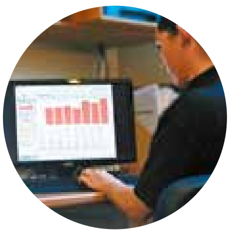
We believe in taking Greggs to where our customers are, providing them with a great shopping environment and fulfilling more of their needs by focusing on food-on-the-go at all times of the day.

Turn to page 10 to find out more.

Simple and efficient operations

We believe in realising the significant efficiency and capacity benefits to be gained within our existing network in order to develop simple and efficient operations.

Turn to page 12 to find out more.



Improvement through change

We believe investing in our processes and systems platform will enable us to compete more effectively in the fast-moving food-on-the-go market.

Turn to page 14 to find out more.

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Directors' Report
Accounts

Greggs at a glance

With 1,650 shops, nine regional bakeries and 19,500 employees who serve millions of customers each week, Greggs is the UK's leading bakery food-on-the-go retailer

Our vision

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

How will we achieve this?

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

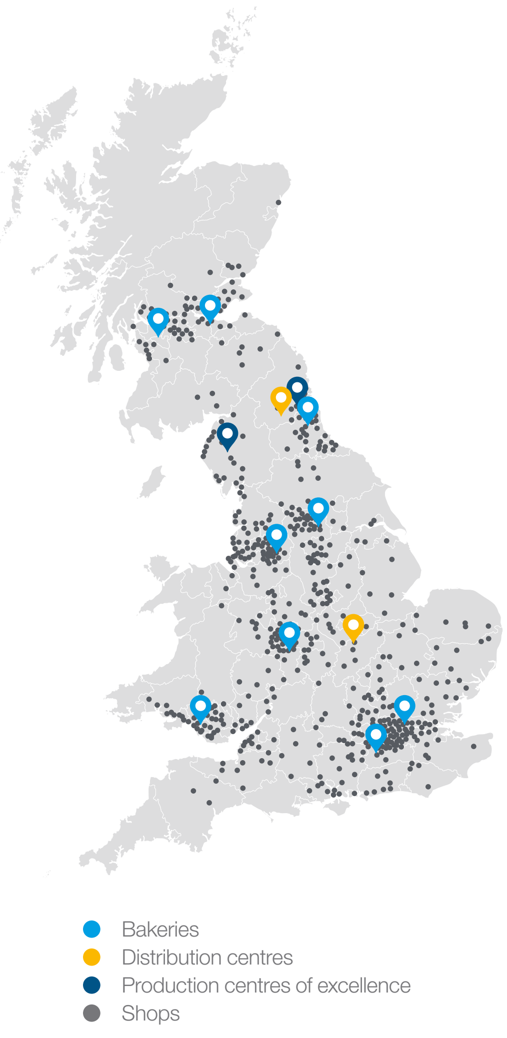
Our food... is made with high quality, wholesome ingredients. Our daily-fresh sandwiches and freshly-baked savouries ensure that we deliver an 'Always Fresh. Always Tasty.' experience to our customers.

Our shops... are being re-modelled and re-sited to meet the demands of busy food-on-the-go customers.

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

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

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



Our business model

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

Our target market
Food-on-the-go is a growing market. Greggs is a brand with broad appeal, attracting customers of all types and we have the opportunity to fulfil more of their needs by focusing on great tasting fresh food-on-the-go at all times of the day.

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

Our vertically-integrated operations

Central Support > Manufacturing > Delivery logistics > Shops

Our target markets

Food-on-the-go | All consumer demographics | United Kingdom

Our market locations

Shopping | Work | Travel | Leisure

Our offering to customers

High quality food and drinks + Great value + Convenient shops + Great service = Happy customers

Greggs shops
1,650

Distribution centres
2

Regional bakeries
9

Production centres of excellence
2

Employees
19,500

Chairman's Statement

2014 has been a year of exceptional progress for Greggs

We have started out very well on a journey designed to deliver long-term profitable growth.

In 2014 Greggs made exceptional progress. The first steps in executing the strategy outlined in 2013 have surpassed expectations in favourable market conditions. Our focus on the food-on-the-go market has resulted in accelerated like-for-like sales growth which, combined with structural cost reductions, has improved the Group's financial performance markedly. There is more to do but we have started out very well on a journey designed to deliver a sustainable business model for long-term profitable growth.

Overview

In 2014 the management team, led by Roger Whiteside, began to implement the strategy outlined in 2013 to focus the business more on the growing food-on-the-go market. This strategic clarity, with a focus on customers and product innovation, has delivered encouraging initial results. With some help from an improving economy and benign weather conditions we have delivered a progressive improvement in like-for-like sales whilst also putting in place a number of initiatives to make our operations measurably simpler and more efficient.

The Chief Executive's review provides greater detail on the implementation of the strategic plan and the progress made against our key targets.

The Board

There have been a number of changes to the Board during the year with the new team settling in well. Helena Ganczakowski joined the Board as an independent Non-Executive Director on 2 January 2014, as did Peter McPhillips on 10 March 2014. Julie Baddeley and Iain Ferguson retired at the AGM on 1 May 2014 following which Sandra Turner was appointed as an independent Non-Executive Director. Sandra has assumed the roles of Remuneration Committee Chair and Senior Independent Director. In 2014 the Board's priority has been to ensure that the strategy outlined in 2013 progressed to plan. Further details of the Board's work can be found in the Governance and Committee sections of the Annual Report.

Dividend and capital structure

The business continues to generate strong cash flow from which it funds capital investment and returns to shareholders. The Company is now in a position to return to a progressive dividend policy, with the Board targeting a dividend cover of around 2.0 times underlying earnings. The Board therefore intends to recommend at the AGM a final dividend of 16.0p per share (2013: 13.5p), giving a total dividend for the year of 22.0p, an increase of 12.8% (2013: 19.5p).

The Board is completing a review of the appropriate capital structure of the Group for the medium term and further plans will be provided at the time of the interim results. The Board intends to target a capital structure that:

- is both prudent and efficient;
- takes into account the expected performance of the business, the investment opportunities and other cash requirements of the Group; and
- allows the Group to run a net cash position throughout the year. Given the leasehold nature of the store portfolio, the Board does not currently believe that it is appropriate to take on debt in the near to medium term.

The Board has already identified that it has the capacity to return up to £10 million to shareholders in the first half of 2015 and will do so through a resumption of its share buyback programme.

Our people and values

The organisational changes implemented in Greggs last year had a significant impact on our people. These changes were necessary for the long-term health of the business and the Board is satisfied that the management team carried out the implementation sensitively in line with our long-standing values of fairness, consideration and respect. My thanks to everyone who has worked for Greggs during the past year. Working in our shops, bakeries and support teams presents many challenges every day and I am grateful for the outstanding dedication and perseverance of all of our employees.

Greggs celebrated its 75-year anniversary last year and in that time has earned a widely-recognised reputation for its contribution to the communities in which it trades. We are particularly proud of our activities and continue to make good progress in the areas of social responsibility that are described in the Annual Report.

Prospects

There is good momentum in the business and the near-term outlook for low cost inflation together with rising consumer disposable incomes remains favourable. Greggs has made a strong start with its new strategy but there is a significant programme of change ahead as we continue to implement our investment in products, shops, operations and systems to create the platform for long-term, sustainable, profitable growth. The Company has an exceptional brand, strong financial position, an experienced management team and a loyal and committed workforce. Building on the strong start I am confident that we can make further progress in the year ahead. The Chief Executive's review contains further details.

Ian Durant
Chairman
4 March 2015

Our Strategy

Continuing to focus on four key areas will deliver success in food-on-the-go

Great tasting fresh food

We believe in 'Always Fresh. Always Tasty.' freshly prepared food at great value for money.

Progress made in 2014

- New and improved coffee blend launched.
- Sandwich range completely overhauled and re-presented.
- Launch of 'Balanced Choice' healthier eating range.
- Core sweet lines upgraded.
- Popular meal deals extended to include hot drinks, cakes, pastries and a wider range of sandwiches.
- Successful programme of new product introductions.

More detail: Strategy in Action P8-P9

Plans for 2015

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

More detail: Chief Executive's Report P17

Great shopping experience

We believe in taking Greggs to where our customers are, providing them with a great shopping environment and fulfilling more of their needs by focusing on food-on-the-go at all times of the day.

Progress made in 2014

- 213 shops refitted, most with seating.
- 85% of new shop locations away from the high street.
- New franchise partnerships developed.
- Improved product availability.
- Trading hours extended.
- Greggs Rewards loyalty programme launched.

More detail: Strategy in Action P10-P11

Plans for 2015

- We plan to enhance the customer experience further by continuing to improve our service offering, shop environments and locations, rebalancing our estate towards new convenient catchment areas, with help from our franchise partners in travel and other convenience locations.
- As we reshaped our estate, overall shop numbers fell slightly in 2014. However, we continue to believe in the long-term opportunity for significant growth in shop numbers and will aim to return to net shop growth as soon as our property pipeline allows.

More detail: Chief Executive's Report P17

Keeping our people, communities and

Our vision and strategy

Our strategic plan focuses on growing like-for-like sales by improving the quality of our existing estate and making our operations simpler and more efficient. The plan has four key pillars which are underpinned by our approach to keeping our people, communities and values at the heart of our business.

Measuring progress

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

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

Simple and efficient operations

We believe in realising the significant efficiency and capacity benefits to be gained within our existing network in order to develop simple and efficient operations.

Progress made in 2014

- In-store bakery migration programme completed.
- Regional and central support teams restructured.
- Combined financial benefits of £2.9 million in 2014.

More detail: Strategy in Action
P12-P13

Plans for 2015

- We will see the full year cost benefit from the structural changes made last year and will build on this with further initiatives to improve our efficiency by investing in our existing supply chain and bakery network.

More detail: Chief Executive's Report
P18

Improvement through change

We believe investing in our process and systems platform will enable us to compete more effectively in the fast-moving food-on-the-go market.

Progress made in 2014

- Workforce management application (QuDOS) rolled out.
- Supplier relationship management software (PROACTIS) put into place.
- SAP selected as our core ERP software supplier.
- Benefits achieved in excess of our original expectation.

More detail: Strategy in Action
P14-15

Plans for 2015

In 2015 we will deliver the next three elements of this programme:

- Central forecasting and replenishment systems to deliver improved product availability.
- Product change management system to improve efficiency of category development processes.
- New customer contact system to improve customer relationship management.

More detail: Chief Executive's Report
P18

values at the heart of our business

More detail: Social Responsibility
P27

Something for everyone – a selection from our 'Balanced Choice' range.

Strategy in action

Great tasting fresh food

Expert bakers for 75 years, Greggs prides itself on freshly preparing food in shops every day and delivering an 'Always Fresh. Always Tasty.' experience to its customers.

Because we own and run all of our bakeries we know and can control exactly what goes into our food. Our vertically-integrated supply chain, unique recipes and bakery expertise all help to set Greggs apart and deliver simple, good quality, great tasting food at affordable and competitive prices.

Progress made in 2014

Whilst we continued to see improved sales as a result of the product changes made last year, our 2014 initiatives have been equally successful in driving sales. Our new and improved coffee blend has been well-received and sales are continuing to grow strongly. Our reputation for value for money is growing as we extend our popular meal deals to include hot drinks, cakes, pastries and a wider range of sandwiches. In the summer we completely overhauled and re-presented our sandwich category, including the launch of our new 'Balanced Choice' range of healthier-eating, great tasting sandwiches with fewer than 400 calories.

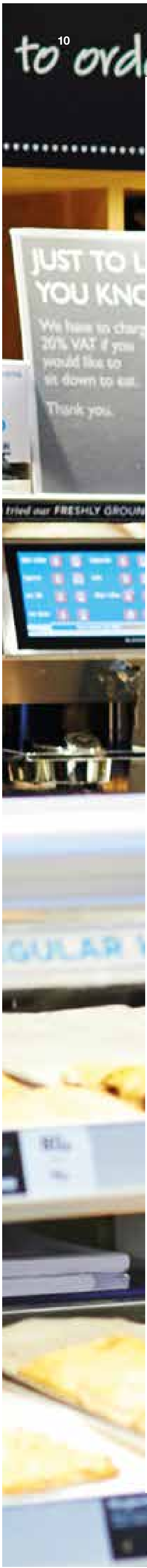
Plans for 2015

We plan to develop our position in the food-on-the-go market by building on the success of the changes we introduced last year with a healthy pipeline of activity in the year ahead. Highlights include extending our breakfast menu, developing our 'Balanced Choice' range, continuing to upgrade product recipes, introducing new products and widening our meal deal offers.

Case study

Outstanding value for money

We make all of our sandwiches fresh each day in our shops with no sell-by date so they always deliver that 'Always Fresh. Always Tasty.' experience. In 2014 we completely overhauled and re-presented our entire sandwich range including the introduction of our new 'Balanced Choice' range of healthier-eating options. Customers loved the new range and sandwiches have been our fastest-growing food category this year.



Strategy in action continued

Great shopping experience

Our bakery food-on-the-go format comprises a contemporary interior that draws on Greggs' bakery heritage but is designed to meet the demands of the modern retail environment and busy food-on-the-go shoppers.

Important features of this concept include the provision of seating for customers where appropriate, improved customer flow and more efficient queue management. The Greggs' customer experience has been enhanced further by improved service levels and more convenient shop locations – with new franchise partnerships enabling us to reach previously inaccessible travel and other convenience locations.

Progress made in 2014

We have continued to benefit from the changes we have made to service levels in our shops, including improved availability and extended trading hours. Our new customer loyalty scheme, Greggs Rewards, launched successfully and is providing us with valuable information to enable us to enhance the customer experience further.

Our investment programme to improve the quality of our estate is progressing well, and 213 shop refits were completed during 2014. Our plan to reshape the estate, rebalancing it towards new convenient catchment areas, is also on track. We opened 50 new shops (including 20 franchise units) and closed 71 shops, giving a total of 1,650 shops (of which 45 are franchise units) trading at 3 January 2015. With help from our franchise partners, new and old, almost all of our new shop locations were away from high streets.

Our franchise partners now include Moto, Euro Garages, Wightlink Limited, Blakemore Retail and SandpiperCI. The success of this model was recognised at the 2014 British Sandwich Awards, where we were named 'En-Route Sandwich Retailer of the Year', and the Forecourt Trader of the Year Awards where we were awarded the status of 'Favourite Forecourt Brand' (voted for by the consumers).

Plans for 2015

We remain committed to improving the quality of our existing estate and our service offering. In 2015 we will continue our accelerated refit programme aiming to refurbish around 200 shops in our bakery food-on-the-go format.

In addition we will continue to reshape our estate – this will involve closing some shops, relocating others and opening new ones away from the high street with help from our franchise partners in travel and convenience locations. Overall shop numbers fell slightly in 2014; however, we continue to believe in the long-term opportunity for significant growth in shop numbers and will aim to return to net shop growth as soon as our property pipeline allows.

We will continue to improve our service levels through a combination of improved availability at lunchtime, further roll out of our extended opening hours programme and the customer benefits offered by Greggs Rewards.

Case study

Greggs Rewards

Our new customer loyalty scheme, Greggs Rewards has been well-received by both our customers and the retail industry – winning numerous awards, including the 'Loyalty Programme of the Year' at the 2014 Retail Systems Awards, and the 'Overall Winner' accolade at the 2014 Payment Awards for the most innovative use of payment technology. We are now planning to build on this as we develop our capability to engage with customers and better meet their needs.

An inviting shop environment is key to a great shopping experience.


T-1000R
Our daily p
Every sandwi
handmade in
GREGG
Always Fresh. Always
Greggs' 218 strong truck fleet ensures we deliver 'Always Fresh. Always Tasty.' products to our 1,650 shops everyday

Strategy in action continued

Simple and efficient operations

As a retailer with a vertically-integrated supply chain, from production through distribution to point-of-sale, we have an important advantage over many of our competitors who keep products on shelves for longer. This is particularly the case in an economic climate where consumers are increasingly concerned about the provenance and freshness of the food that they eat.

To make sure we continue to deliver simple, good quality, great tasting fresh food at affordable and competitive prices it is imperative that we remain focused on realising the significant efficiency and capacity benefits to be gained within our supply chain and existing network of bakeries. Alongside this we will further improve our operational effectiveness in support areas in order to maximise our scope for investment in front-line customer service.

Progress made in 2014

We have completed the restructure of our support areas and consolidated our in-store bakeries into our regional bakery network. The combined financial benefits from these changes have delivered savings of £2.9 million in 2014 and expected savings of £6.0 million per year from 2015 onwards.

We have continued on our journey to develop our production centres of excellence, ensuring great product quality and consistency. The quality of our facilities was recognised by the award of British Retail Consortium (BRC) accreditation to a number of our bakeries and production facilities during the year.

Plans for 2015

Investment in our supply chain will continue to be focused on improving the efficiency of our existing bakery network, building on the work to develop production centres of excellence seen in recent years. We intend to build on the success of our cost-saving initiatives with a further pipeline of improvements to be implemented this year.

Case study

Telematics

Since the introduction of vehicle telematics we have reduced fuel consumption by 11 per cent. This is worth £700,000 per annum. Insurance claims have come down significantly and this has been reflected in a premium saving of £350,000 (35 per cent reduction) for 2015.

We are continuing with our driver training which is based upon data from the telematics system, road traffic incidents and driving licence endorsements.

We are currently trialling on-board vehicle cameras to complement the vehicle telematics. Footage from these will be used to complement existing driver training and to help investigate any incidents.

Strategy in action continued

Improvement through change

Greggs has made significant progress in the past five years towards centralising the operation of the business, moving from a regionally-structured business to a centralised model.

In August 2013 we announced a five-year change programme which involves investing in the process and systems platform that will enable us to compete more effectively in the fast-moving food-on-the-go market.

Progress made in 2014

We have delivered and are starting to see returns from the first two elements of this programme. QuDOS, a forecast-based manpower planning application has replaced manually-generated staff rotas in shops, and PROACTIS, a more transparent supplier management and procurement system has been put into place to enable greater purchasing opportunities. The benefits from these two elements are ahead of target and we expect to build on this as we become more familiar with the new ways of working in these areas. We also selected SAP as our core ERP software supplier which will allow us to move forward to the next phase of the programme.

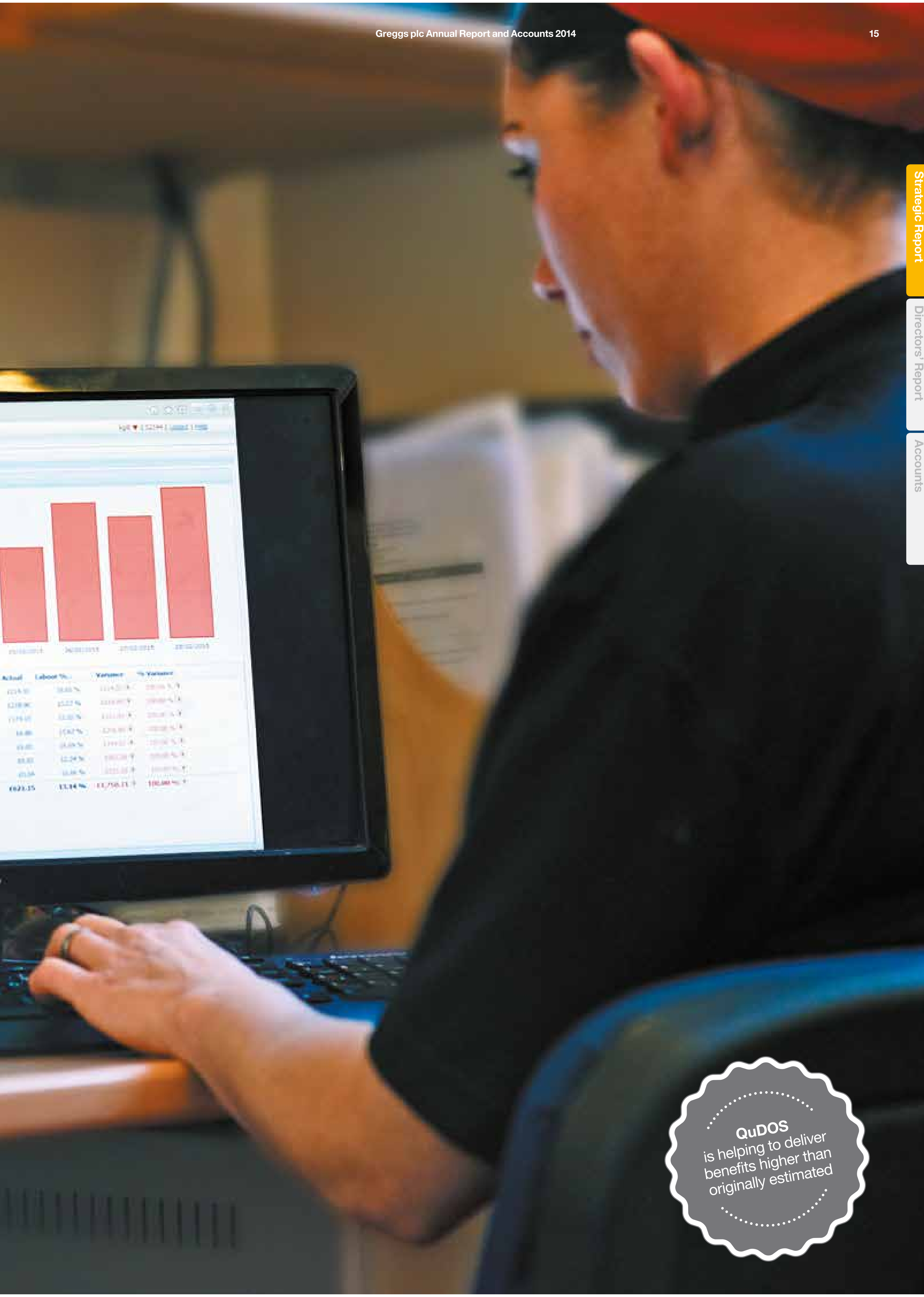
Plans for 2015

The implementation of SAP technology is underway. Greggs will use SAP's applications to develop operational efficiency across all areas of the business beginning with category management, retail forecasting and replenishment. A new customer contact system will also be introduced to improve our effectiveness in this key area.

Case study

QuDOS workforce management system

QuDOS is a fully integrated workforce management system comprising the core elements of forecasting, scheduling, time and attendance. Its powerful forecasting engine predicts both sales and labour requirements. The scheduling part of the tool delivers our shop managers with a schedule which meets the forecasted hours. Our shop colleagues clock in and out against the schedule and are paid accordingly as the system integrates directly into our payroll system. This system has replaced a number of older systems which were no longer fit for purpose and ultimately provided us with much greater control and visibility of retail labour costs.



QuDOS
is helping to deliver
benefits higher than
originally estimated

Chief Executive's Report

2014 was a year of significant change and an exceptional step up in performance for Greggs

We have improved both our food offer and the shop experience for our customers.

2014 was a year of significant change and an exceptional step up in performance for Greggs as we began to implement our new strategic plan centred on the growing food-on-the-go market. We made structural changes that are already delivering more effective and efficient operations and have improved both our food offer and the shop experience for customers. Market conditions have been more favourable with increased employment levels, growing disposable incomes, low input cost inflation and benign weather for most of the year. Like-for-like sales have grown throughout the year and were particularly strong in the second half. This, combined with structural cost reductions, has resulted in record underlying profits for the financial year.

Financial performance

Total sales increased to £804.0 million, a rise of 5.5 per cent, and like-for-like sales grew by 4.5 per cent in the year. Excluding the impact of accounting for a 53rd week in 2014 our comparable total sales grew by 3.9 per cent, reflecting the impact of net shop closures in the year.

Operating profit before exceptional items grew by 40.0 per cent to £58.1 million and pre-tax profit before exceptional items grew by 41.1 per cent to £58.3 million. As previously announced, we had an exceptional charge of £8.5 million reflecting one-off costs resulting from structural changes in our supply chain and support areas. Our Finance Director, Richard Hutton, comments on financial performance in more detail in the Financial Review.

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

Market conditions improved during 2014 with continued recovery in the UK economy coupled with low inflation leading to rising real disposable consumer income. These general market conditions were helped by more benign weather conditions than the previous year when we suffered from snow in the winter and a heatwave in the summer. Our improved like-for-like sales performance has shown the Greggs brand can win in the highly competitive food-on-the-go market. We believe the overall market remains in growth with no sign of a slowdown in competitor new shop openings.

The Greggs brand occupies a strong position in the food-on-the-go market with a reputation for fresh and tasty products at good value and great customer service. Greggs ranks number one in the market for savoury and sweet bakery snacks, number two for sandwiches and first in the fast-growing breakfast segment. Greggs appeals to a broad customer base and with our improved offer, alongside growing consumer incomes, we are seeing increasing numbers of customer visits and growth in transaction values.

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

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

- Great tasting fresh food.
- A great shopping experience.
- Simple and efficient operations.
- Improvement through change.

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

The strategic plan represents a major programme of change over a period of up to five years and we are tracking progress against a number of key targets:

- Driving like-for-like sales growth.
- Achieving targeted returns on our increased investment in shop refits.
- Delivery of operational and supply chain efficiencies.
- Achieving the planned benefits from our investment in processes and systems.

In 2014 we exceeded targets in all of these areas:

- Strongest like-for-like sales growth since 2007.
- Exceeded refit investment criteria by a third.
- Completed organisational and supply chain restructuring ahead of schedule.
- Exceeded process and systems investment benefit target by £1 million.

Delivering our plans

1. Great tasting fresh food

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

Changes to product range

We continue to make changes to our product range which have been successful in driving sales growth.

In February 2014 we launched our improved coffee blend which, in extensive nationwide blind tasting, four out of five customers judged to be as good as or better than their favourite coffee brand. Coffee sales were our fastest growing product category last year and our reputation for freshly-ground bean-to-cup coffee at exceptional value continues to grow with sales in the period leading up to Christmas reaching a new high of £1 million per week.

In the summer we completely overhauled and relaunched our entire sandwich range with improved recipes and enhanced packaging. This included the launch of our new sub-brand of 'Balanced Choice' products offering healthier choices with fewer than 400 calories. Sandwich sales surpassed our expectations following the relaunch. Sales of our 'Balanced Choice' lines reached circa £55 million for the year creating a strong platform for future development in this strategically important range.

Throughout the year we continued our programme of improving recipes in our most popular lines in the traditional sweet and savoury ranges with positive customer reaction helping to support increased repeat sales. New flavours in traditional products have also been successful, such as our new steak and cheese roll, launched in November, which has quickly become a bestseller.

Alongside this activity we successfully launched new products in food-on-the-go categories such as fresh soups and hot sandwiches which are aimed at creating new reasons to visit Greggs.

Value

Outstanding value for money remains a key attribute of the Greggs brand and we have continued to build our reputation for market-leading menu deals which drive growth and average transaction values. We maintained our £2 breakfast meal deal for the fifth year running, again driving double digit growth as this meal occasion continues to grow in importance to our food-on-the-go customers. We once again extended the range of sandwiches included in our £3 sandwich meal deal. We also introduced a new menu deal offering coffee and any sweet item for £2 and this is growing strongly in popularity.

Finally, although we are no longer focused on the take-home bakery market, we have successfully launched a range of outstanding value impulse packs selling to food-on-the-go customers for sharing at home or at work. Examples include our mini doughnut and mini yum-yum packs, both priced at £1.

2015 product initiatives

We have a strong pipeline of further product developments planned for 2015. As an example, we have just launched our new fresh soups including Chorizo and Fire Roast Pepper and introduced our new meal deal offering coffee and any savoury snack for just £2. In the coming weeks we will be extending our breakfast offer and launching new options under our 'Balanced Choice' label.

2. Great shopping experience

As well as improvements to our products we have continued to make changes in our shop operations to meet the needs of our food-on-the-go customers better. For example, we have invested in increased labour hours to improve availability particularly at lunch time and continued with our programme to increase trading hours where we see opportunity.

Chief Executive's Report
continued

Estate changes and refurbishments
We opened 50 new shops (including 20 franchised units) in the year and closed 71, resulting in 1,650 shops trading at 3 January 2015. 85 per cent of our new shop locations were away from high streets such as in retail and industrial parks, motorway service stations and travel hubs. At the end of 2014 we had 45 franchised shops operating in travel and other convenience locations and continue to see this as a route to further growth.

We completed 213 shop refurbishments during the year. Returns were ahead of our expectations and we anticipate progressing with the estate improvement programme at a similar rate in the year ahead.

In 2015 we expect to open 80-100 shops including further development of our franchise partnerships, and close around 60-80 shops in the year. Our shop opening and closure programme is progressively improving the quality and performance of our estate whilst rebalancing it towards more sustainable long-term locations by increasing our presence in travel, leisure and work-centred catchments. We continue to believe in the opportunity for increased shop numbers, with our longer-term target being more than 2,000 in the UK, and expect to return to growth in net shop numbers in the second half.

Greggs Rewards loyalty scheme
We successfully launched our digital customer loyalty scheme 'Greggs Rewards' in February 2014 and were awarded 'Loyalty Programme of the Year' at the 2014 Retail System Awards. Participation continues to build as customers benefit from a more convenient method of paying and receive product rewards for shopping with us. We are beginning to learn more about customer behaviour from this database and expect to build on this in the years ahead to enable us to continue making improvements to the customer experience.

3. Simple and efficient operations

Alongside our improvements to products and customer service we made significant progress last year in our drive to make our supply and support functions simpler and more efficient. In our supply chain we consolidated our 79 in-store bakeries into our existing regional bakery network completing the programme in October, well ahead of schedule. In support areas we reduced our regional structure from seven to four regions and reorganised several central support teams.

All of this involved substantial change across the organisation and I am proud of the professionalism and sensitivity our teams displayed in implementing these changes, upholding Greggs' long-standing values of fairness, consideration and respect.

The changes outlined above resulted in one-off redundancy costs and asset impairment charges amounting to £8.2 million in 2014. These have been classified as part of the exceptional charge of £8.5m in our accounts. In 2014 the net benefit of the changes, excluding the one-off costs, was £2.9m. In 2015 we expect this benefit to annualise at around £6.0 million.

Looking ahead we will continue to reduce the structural costs in our business by focusing on making our operations simpler and more efficient. The opportunities to do so will increasingly overlap and merge with the benefits arising from our programme of investment in new systems and processes. In our supply chain the direction of change will continue to be towards consolidation in manufacturing where we are not capacity-constrained whilst growing logistics capacity to support shop expansion plans.

4. Improvement through change

Investment in systems
In 2014 we successfully implemented the first two elements of our major investment programme in the process and systems platforms that will enable us to compete more effectively in the fast-moving food-on-the-go market. These first steps related to workforce management and supplier relationship management. Both have delivered benefits in excess of our initial expectations and show potential for further improvements as we harness their full capabilities.

During 2014 we selected SAP as our core ERP software supplier and are now planning the implementation of modules designed to improve processes around shop ordering and customer contact. In total this is a significant multi-year change programme for the business, which we are carefully planning and executing. We have made a good start and are encouraged by the early results. We continue to expect the programme to make an annual net contribution of around £6.0 million once the key functionality is in place around four years from now.

Keeping our people, communities and values at the heart of our business
The progress we have made this year is in no small part related to the significant amount of change that the business has undergone and I do not underestimate the impact that this has had in many areas. Change is a necessary part of any healthy business and we will continue to adapt to ensure that we remain competitive for the long term. I would like to thank all of our people for the role that they have played in returning the business to profitable growth.

As a business one of the ways in which we share the benefits of our success is through our profit sharing scheme, which distributes 10 per cent of our profit to employees. I am delighted that our people will be sharing a record £6.4 million as a result of our performance in 2014.

In 2014 our people once again made a difference to our local communities. Around £350,000 was raised in our shops and our bakeries for the Greggs Foundation and this, combined with donations from the Company, enabled the Greggs Foundation to distribute more than £1.5 million in support of a wide range of local community initiatives. These included the award-winning Greggs Breakfast Club programme, which provided over three million free wholesome breakfasts to children across 304 primary schools in 2014. Partnership work has been key to the growth of Breakfast Clubs and 115 clubs are now supported by partner organisations who share our ambition to improve the learning opportunities for children in disadvantaged areas.

This would not have been possible without the continued generosity of our customers, who also helped Greggs to raise over £1 million for the North of England Children's Cancer Research Fund, the BBC Children in Need appeal, Disasters Emergency Committee appeals and the Royal British Legion's Poppy appeal collectively in 2014.

Additional ways in which we help to make a difference to local communities include the development of a number of work inclusion programmes through which we have helped to promote the employability skills of 370 people, resulting in 87 people being offered paid employment. We have also continued our support for the Business in the Community's 'Business Connectors' scheme and are proud to have seconded eight Business Connectors so far.

We continued to make good progress in the remaining three key areas of our social responsibility agenda: 'creating a great place for our people to work', 'food our customers can trust' and 'reducing our impact on the world around us'.

2014 highlights include continuing to share 10 per cent of profits with our people, donating 512 volunteer days and providing 90 per cent of our management team with career development training. We have successfully grown sales of our 'Balanced Choice' products to circa £55 million, rolled out the provision of transparent nutritional information and published a Farm Animal Welfare Strategy and Ethical Sourcing Statement. We are also pleased to report that our continued focus on reducing waste to landfill has seen us surpass our target to recycle 90 per cent of waste from production sites – we now divert 100 per cent of waste from these sites.

Outlook for 2015

2015 will be a year of further change for Greggs as we continue to move forward with our focus on the food-on-the-go market. Market conditions remain helpful and the outlook for the first half suggests that low inflation should continue to support disposable incomes.

This year has started strongly and like-for-like sales in the eight weeks to 28 February 2015 have grown by 6.3 per cent, partly reflecting the wet start to 2014. We expect that our initiatives will continue to deliver growth, although we are mindful that the sales comparatives become stronger through the year.

Costs were well controlled in 2014 and we go into 2015 with further benefits to come from our actions taken around making the business simpler and more efficient. Food input costs are likely to be deflationary for the first half of the year and we will continue to invest in improving the quality of our estate and in upgrading our processes and systems.

Overall we are confident of delivering a further year of good growth and progress against our strategic plan in 2015.

Roger Whiteside
Chief Executive
4 March 2015

Financial Review

Cash generation continues to be strong, supporting investment in our programme of improvement plus an increased dividend

The significantly improved financial performance in 2014 reflects healthy like-for-like sales growth combined with strong returns on capital investment and progress in cost reduction. Cash generation remains strong, supporting investment in our programme of improvement and an increased dividend.

Sales

Total Group sales for the 53 weeks ended 3 January 2015 were £804.0 million (2013: £762.4 million), an increase of 5.5 per cent. Excluding the impact of the additional week in 2014 the growth in total Group sales compared with the same 52 weeks in 2013 was 3.9 per cent. Like-for-like sales grew by 4.5 per cent across the year as a whole and the second half performance was stronger at 5.6 per cent, following 3.2 per cent growth in the first half.

Profit before exceptional items

Operating profit before exceptional items was £58.1 million (2013: £41.5 million), a 40.0 per cent increase. The result reflects good like-for-like sales growth, particularly in the second half of the year, strong returns on our investments in shop refurbishment and excellent cost control in our operations and as a result of structural changes.

After net finance income of £0.2 million (2013: £0.2 million charge) pre-tax profit before exceptional items was £58.3 million (2013: £41.3 million), an increase of 41.1 per cent. The impact of exceptional costs in the year is discussed below.

Operating margin

Operating margin before exceptional items was 7.2 per cent (2013: 5.4 per cent).

Gross margin before exceptional items increased to 61.5 per cent (2013: 59.9 per cent) reflecting lower than expected input cost inflation and the operational gearing impact of strong like-for-like growth. The structural cost reduction resulting from the consolidation of in-store bakeries into our regional bakery network and the initial benefits of our investment in procurement technology also benefited gross margin and we expect to see further improvements in the year ahead.

We made good progress against our efficiency targets in shops and support areas and achieved savings of £6.5 million in 2014. Increasingly we are now focusing our efforts on achieving further efficiencies through the investment programme in processes and systems. Whilst this will result in higher costs in respect of technology we will see the benefits in our operational costs. As an example, in 2014 we invested in a leading workforce management solution to plan and manage the deployment of labour in our shops. This is resulting in better deployment of staff to meet demand with benefits for customer service and in greater efficiency.

In 2014 we recognised gains on the disposal of freehold properties totalling £1.5 million (2013: £1.3 million) largely as a result of the accelerated closure of under-performing shops. The net cost of accounting for a 53rd week in 2014 was £0.7m. On average this arises every five years and results in the higher operating costs and lower sales of New Year trading periods occurring twice in one financial year.

Financing charges

There was net income from financing of £0.2 million in the year (2013: £0.2 million charge) reflecting the net cash position of the Group and the funding position of the defined benefit pension scheme. In the year ahead we expect to incur a small financing charge relating to the net liability of the pension scheme at the end of the year as a result of the reduction in bond rates.

Exceptional items

We incurred exceptional costs in 2014 as a result of the restructuring of our in-store bakeries and support operations. The cost of making these changes was £8.2 million and related to one-off redundancy costs and asset impairment charges. The net benefit to operating profit in 2014 was £2.9 million; this is expected to annualise to a net benefit of £6.0 million in 2015. The total exceptional charge of £8.5 million included additional costs relating to the closure of 'Greggs moment' coffee shops in 2013.

Pre-tax profit in 2014 including exceptional items was £49.7 million (2013: £33.2 million).

Taxation

Excluding the impact of exceptional items the Group's underlying tax charge was 24.0 per cent (2013: 25.0 per cent). The overall tax rate for the year including exceptional items was 24.5 per cent (2013: 27.0 per cent). The effective rate reflected the lowering of the headline rate of corporation tax from 23 per cent to 21 per cent in April 2014; deferred tax liabilities were revalued in 2013 following enactment of the reduction in that year.

We expect the effective rate for 2015 to be 23.0 per cent, falling to 22.75 per cent for 2016.

Earnings per share

Diluted earnings per share before exceptional items were 43.4 pence (2013: 30.6 pence), an increase of 41.8 per cent. Basic earnings per share before exceptional items were 44.0 pence (2013: 30.8 pence). Earnings per share including exceptional items were 36.8 pence diluted (2013: 23.9 pence) and 37.4 pence basic (2013: 24.1 pence).

Dividend

The Board recommends a final dividend of 16.0 pence per share (2013: 13.5 pence). Together with the interim dividend of 6.0 pence (2013: 6.0 pence) paid in October 2014, this makes a total for the year of 22.0 pence (2013: 19.5 pence). This is covered 2.0 times by diluted earnings per share before exceptional items in line with our progressive dividend policy.

Subject to the approval of shareholders at the Annual General Meeting, the final dividend will be paid on 8 May 2015 to shareholders on the register on 10 April 2015.

Capital expenditure

We invested a total of £48.9 million (2013: £47.6 million) of capital expenditure in the business during 2014. This included expenditure on 213 shop refurbishments and the opening of 30 new shops (excluding franchises). We also invested £3.9m in our programme of process and systems improvement. This was some £2.0m less than we had anticipated as we deferred certain elements which will now be acquired in 2015. Investment in our supply chain continued to be focused on efficiency activity and the replacement of end-of-life assets. Depreciation and amortisation (excluding impairment charges) in the year was £38.0 million (2013: £33.4 million).

Following the success of our 2014 capital investment programme (see below) we plan capital expenditure of around £65.0 million in 2015. As in 2014, we will prioritise investment in our core estate and on the upgrading of our process and systems platform. We plan to refurbish 200 to 220 shops in 2015 and expect to invest in 60 - 70 new shops.

Return on capital

We manage return on capital against predetermined targets and monitor performance through our Investment Board, where all capital expenditure is subject to rigorous appraisal before and after it is made. For investments in new shops and refurbishments we target a cash return on invested capital of 25 per cent over an average investment cycle of seven years. Other investments are appraised using discounted cash flow analysis.

The investment returns on our refurbishment expenditure were good, meeting our return target after one year and with the expectation that we will see further improvement in the year ahead. The performance of new shops improved significantly in the year, partly due to progress in the performance of prior year openings and partly due to a better than normal start from our 2014 acquisitions. In the year ahead we aim to increase the rate of openings but will continue to be selective and keep the focus on achieving strong investment returns.

Excluding exceptional costs we delivered an overall return on capital employed (ROCE) for 2014 of 22.4 per cent (2013: 16.4 per cent excluding exceptional costs). The stronger ROCE reflects the improved operating performance in the year as well as good capital investment returns.

Cash flow and balance sheet

The net cash inflow from operating activities in the year was £97.1 million (2013: £69.3 million). At the end of the year the Group had net cash and cash equivalents of £43.6 million (2013: £21.6 million) and a short-term cash deposit of £10.0 million (2013: £3.0 million). The cash and creditor positions reflect the £6.4 million profit share commitment that will be paid out in March 2015. In previous years this was paid in the financial year itself.

The Board continues to be mindful of the appropriate capital structure of the Group, bearing in mind the leverage inherent in the Group's predominantly leasehold shop estate and of working capital requirements. In the first half of 2015 we intend to return up to £10 million to shareholders through share buybacks and, as the Chairman has said, we will give a further update on the Group's capital structure with the interim results.

Richard Hutton
Finance Director
4 March 2015

Key financial performance indicators

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

Sales growth:

3.9%

2014	3.9%
2013	3.8%
2012	4.8%
2011	5.8%
2010	2.1%

The percentage year-on-year change in total sales for the Group, adjusted for the impact of a 53 week year in 2014. In 2014 total sales grew by 3.9 per cent (2013: 3.8 per cent) to £804 million (2013: £762 million). This primarily reflected like-for-like sales growth and the impact of net shop number reduction. Including the 53rd week total sales growth in 2014 was 5.5 per cent.

Like-for-like sales growth:

4.5%

2014	4.5%
2013	-0.8%
2012	-2.7%
2011	1.4%
2010	0.2%

Compares year-on-year cash sales in our 'core' shops, i.e. it is not distorted by shop openings and closures. Like-for-like sales growth includes selling price inflation and excludes VAT. Like-for-like sales grew by 4.5 per cent in 2014 (2013: decrease of 0.8 per cent). There was an improving trend throughout the year with particularly strong growth in the second half of the year.

Adjusted operating profit:

£58.1 million

2014	£58.1m
2013	£41.5m
2012	£51.3m
2011	£53.0m
2010	£52.4m

Reflects the performance of the Group before financing and taxation impacts and excludes exceptional items arising in the year. Adjusted operating profit for the year increased by 40.0 per cent to £58.1 million (2013: £41.5 million). This reflects good like-for-like sales growth, strong returns on our investments in shop refurbishment and excellent cost control.

Operating margin:

7.2%

2014	7.2%
2013	5.4%
2012	7.0%
2011	7.6%
2010	7.9%

Shows the adjusted operating profit of the Group as a percentage of turnover. Operating margin for the year has increased to 7.2 per cent (2013: 5.4 per cent).

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Adjusted diluted earnings per share (pence):

43.4p

2014	43.4p
2013	30.6p
2012	38.3p
2011	38.8p
2010	37.3p

Calculated by dividing profit attributable to shareholders before exceptional items by the average number of dilutive outstanding shares. Diluted earnings per share increased by 41.8 per cent to 43.4p (2013: 30.6p).

Capital expenditure:

£48.9 million

2014	£48.9m
2013	£47.6m
2012	£46.9m
2011	£59.1m
2010	£45.6m

The total amount incurred in the year on investment in fixed assets. Capital expenditure in 2014 was £48.9 million (2013: £47.6 million).

EBITDA:

£96.2 million

2014	£96.2m
2013	£77.0m
2012	£84.3m
2011	£83.9m
2010	£81.5m

Earnings (excluding exceptional items) before interest, tax, depreciation and amortisation. EBITDA in 2014 was £96.2 million (2013: £77.0 million)

Return on capital employed (ROCE):

22.4%

2014	22.4%
2013	16.4%
2012	21.3%
2011	24.4%
2010	25.9%

Calculated by dividing profit before tax before exceptional items by total assets less current liabilities averaged for the year. The year-on-year increase in ROCE reflects the higher overall operating profits in 2014 and good returns on invested capital.

Principal risks and uncertainties

Corporate governance guidance requires the disclosure of principal risks and uncertainties. A principal risk is defined as 'a risk or combination of risks which can seriously affect the performance, future prospects or reputation of the entity'. This would include risks which would threaten the business' viability.

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

Business strategy & change

Area of principal risk or uncertainty	Mitigating actions and controls	Risk rating
Change programme The business has embarked on a long-term project to improve operational efficiency, requiring significant capital investment. Progress may not be in line with expectations, or budgets may not be met.	The project delivery is overseen by the Operating Board, under the guidance of a project sponsor, providing robust governance. Regular updates are provided to the Board, to monitor progress against clearly defined timelines and financial forecasts.	No change
Information security Greggs obtains significant quantities of customer data through its loyalty scheme, which needs to be handled in a secure manner. More general 'cyber' issues are also an area of risk.	A cross-functional working group determines priorities for improving the business approach to information security. Where appropriate, the Company is investing in training and technology to strengthen controls.	No change

Brand & reputation

Area of principal risk or uncertainty	Mitigating actions and controls	Risk rating
Product quality and safety As a food-on-the-go retailer and manufacturer, good food safety is clearly imperative to maintain consumer confidence in our products. We need to ensure that our ingredients are in line with specification, and are used correctly.	Procedures are in place in our bakeries, logistics operations and shops to ensure that food safety is maintained. These procedures are supported by robust audit processes, both internally and by regulatory bodies.	No change
Food scare Greggs may suffer from a loss of customer confidence due to a major food scare beyond its control.	The majority of products for sale in our shops have been manufactured by our staff in our bakeries. Checks are carried out to confirm the integrity of our ingredients as part of routine processes.	No change

Supply chain

Area of principal risk or uncertainty	Mitigating actions and controls	Risk rating
Loss of production Some of our products are produced in one location and distributed nationwide. Any disruption to supply would have a significant impact on our customers.	Contingency plans are in place for our supply sites, and these are regularly tested. Annual site inspections by our property insurers help us to ensure that our facilities are protected against loss. Alternative sources of supply have been identified for key products, and regular testing ensures an ability to provide product to a suitable quality within the required timeframe.	No change

External pressures

Area of principal risk or uncertainty	Mitigating actions and controls	Risk rating
Economic outlook/market pressures Continued economic uncertainty, combined with a decline in high street footfall, result in a challenging trading environment for the business in the short term.	Our products are competitively priced, to offer the consumer value for money. We continue to focus on refitting existing stores, rather than opening new ones. New store locations are generally away from high streets, to reflect the changes in shopping habits.	Improving
Market saturation In the longer term, the food-on-the-go market may become saturated due to the entry of new players and the expansion of existing competitors.	Our value proposition combined with our quality products puts us in a strong position in the market place. Monitoring of marketing data and segmental analysis allows us to target our activity.	New

Healthy eating

Area of principal risk or uncertainty	Mitigating actions and controls	Risk rating
Consumer trends Greggs may lose customer share due to changing customer trends and health concerns reducing the popularity of some of our products.	We have introduced a 'Balanced Choice' range within our sandwiches to provide our customers with increased choice. Lines such as our soup, porridge and salads provide other alternatives. Sales of products within this range have been growing well.	Improving

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

Greggs' exposure to risks evolves as we take mitigating actions, or as new risks emerge. The following risks have been removed from our list this year:

- Structural changes: these have now been completed;
- Labelling regulations: focused activity has ensured our readiness for the new requirements.
- Single source suppliers: risk mitigated (other than limited exposure on non-key ingredients).
- Commodity prices: activities in place to mitigate the risk to a reasonable level.

Principal risks and uncertainties
continued

Our risk management approach

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

Board of Directors

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

Insurance cover provides a means of mitigation for a number of risks facing the business. On an annual basis, the Board reviews the cover in place and determines whether or not it considers this to be appropriate. Having changed insurance broker during the year, we have undertaken a robust review of our insurances, which has provided additional assurance that our cover is fit for purpose.

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

Operating Board

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

Risk Committee

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

The Risk Committee also considers new and emerging risks as a standing agenda item, including those identified by the Board of Directors. The Committee has also reviewed the ranking of the business' key strategic risks during the year, to ensure that this remains an appropriate reflection of their relative standing.

Whistle-blowing

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

Business Assurance

The Business Assurance function provides independent internal audit coverage for the entire business operation and also supports risk management activity across the organisation. Audit findings are reported to management, and to the Audit Committee, whose quarterly meetings are all attended by the Head of Business Assurance. The Business Assurance team has authority to access all areas of the business, all senior managers, and the Chair of the Audit Committee as required.

Social responsibility

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

Our commitment to keeping people, communities and values at the heart of our business is deep-rooted and can be traced back to the establishment of the Greggs Foundation by Ian Gregg in 1987. Our social responsibility agenda focuses on four key areas:

1. Making a difference to our local communities.
2. A great place to work.
3. Food our customers can trust.
4. Reducing our impact on the world around us.

We take our social responsibilities very seriously, with the Chief Executive responsible for delivery, and the Board ultimately accountable for performance. Delivery is managed through a Steering Group, chaired by the Company Secretary, comprising the Chief Executive and four members of the Operating Board. An Operating Board Director champions each of the four key areas of focus, ensuring top level commitment across the business.

'Making a difference to our local communities'
is championed by Richard Hutton, Finance Director.

'A great place to work'
is championed by Roisin Currie, People Director.

'Food our customers can trust'
is championed by Malcolm Copland, Commercial Director.

'Reducing our impact on the world around us'
is championed by Raymond Reynolds, Retail Director.

In 2014 we carried out a stakeholder mapping exercise for each of our social responsibility pillars. This has helped us to identify and prioritise (or in some cases reinforce) who our stakeholders are. The next step is to develop comprehensive engagement plans which we aim to complete in 2015.

Greggs remains a constituent of the FTSE4Good sustainability index and we continue to take part in the Business in the Community 'Corporate Responsibility Index', achieving a SILVER rating in 2013 and a 2-star rating in 2014.

1. Making a difference to our local communities

Over the last 75 years Greggs has grown through the continued support of its customers. As a successful business we believe we have a responsibility to help the local communities in which we operate.

We focus our efforts in making a difference to our local communities in four key areas:

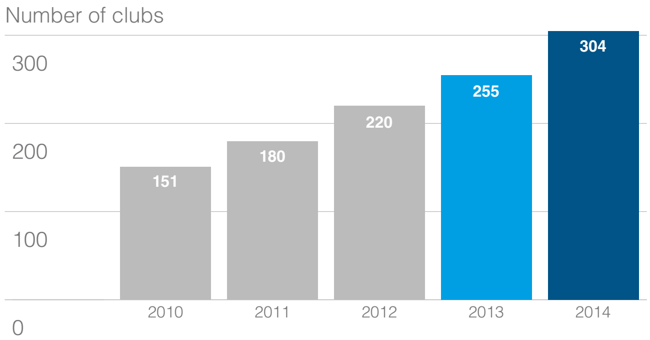
(i) Our work with the Greggs Foundation
(ii) Our work with other charities
(iii) Our work inclusion programmes
(iv) Our work with Business in the Community

(i) Our work with the Greggs Foundation

The Greggs Foundation is a grant-making trust closely associated with, but wholly independent of, Greggs plc. Its aim is to make a difference to people in need at the heart of the local communities which Greggs serves. A significant proportion of the Greggs Foundation's impact is achieved through the generosity of Greggs' employees and customers – in 2014 around £450,000 was raised in our shops and our bakeries for the Foundation, including £88,000 during our first-ever Breakfast Club Appeal and £35,000 during our first-ever Christmas appeal in support of homeless and isolated older people.

Social responsibility
continued

Breakfast Clubs



Fundraising efforts such as this, combined with our annual donation (£520,000 in 2014), enabled the Greggs Foundation to distribute a total of £1.5 million in support of a wide range of local community initiatives. Now in its 28th year, the Greggs Foundation has given almost £20 million to support our local communities.

A long-standing part of our community strategy has been our commitment to school Breakfast Clubs, to which many of our people lend their time and support. Under the Greggs Foundation's Breakfast Club model over 3.6 million free wholesome breakfasts were supplied to children in 304 primary schools in 2014. Greggs provides free bread as well as a cash grant towards other running costs at 163 schools.

An additional 141 clubs are supported by Greggs' partners and by fundraising. Partnership work has been key to the growth of Breakfast Clubs. At the end of 2014, 115 clubs were supported by generous partner organisations who share our aim of improving learning opportunities for children in disadvantaged areas. For a list of partner organisations please see the Greggs Foundation's website: www.greggsfoundation.org.uk.

Research shows that Breakfast Clubs can improve attendance, punctuality and behaviour amongst pupils, as well as increasing learning outcomes. They have also been shown to strengthen the school/parent relationship and increase opportunities for socialising. The clubs provide over 900 parents and carers with volunteering opportunities that can help them to re-enter the world of work.

(ii) Our work with other charities

We lend significant support to other charities which our people and customers feel passionate about. These include: the North of England Children's Cancer Research Fund, the BBC's Children in Need appeal, the Royal British Legion's Poppy appeal and DEC's Ebola Crisis appeal. Collectively we raised over £1 million for these causes in 2014.

- North of England Children's Cancer Run: Greggs has been the NECCR main sponsor since it was launched back in 1982. Now in its 32nd year, over £6 million has been raised enabling researchers to make huge advances in the care that young patients receive, making their treatments less toxic and damaging and vastly improving recovery rates. Now 80 per cent of children diagnosed survive the disease, compared to just 20 per cent 30 years ago.
- BBC's Children in Need appeal: In 2014 we raised an amazing £865,000, bringing the overall total raised by Greggs to almost £6 million in the last seven years.
- Royal British Legion's Poppy appeal: Once again our customers supported the Royal British Legion Poppy appeal, raising almost £170,000.
- DEC's Ebola Crisis appeal: Through the continued generosity of our customers we were able to raise over £72,000 for this appeal.

(iii) Our work inclusion programmes

For a number of years now we have been directly involved in work inclusion initiatives that promote the employability of people from marginalised groups. In 2014 we helped more than 370 people to develop employability skills through the delivery of the following programmes, resulting in 87 people being offered paid employment:

Ready to Work: Developed in conjunction with prisons and probation trusts, this programme provides ex-offenders with assessment and interview experience, helping to raise their career aspirations. Greggs now has strong working relationships with 26 prisons and nine probation trusts, helping us to reach over 240 individuals in 2014 (a significant year-on-year increase) through the delivery of training sessions. 45 participants went on to carry out work experience placements with us and 23 secured paid employment.

A Taste of Greggs: Developed in partnership with Job Centre Plus, this programme offers work experience placements and employment, where possible, to young people. In 2014 we provided 15 people with work experience placements and five with paid employment.

Work Programme: Shaped for Greggs by various work providers, this programme helps us to support the longer-term unemployed through the provision of work experience and, where possible, paid employment. In 2014 we have supported over 135 individuals through work placements and provided almost 60 with paid employment.

In 2014 we were recognised for our commitment to improving the lives of disadvantaged people by the Employment Related Services Association (ERSA), who awarded us the 'Large Employer of the Year' accolade and Business in the Community (BITC) who gave our Ready to Work programme a 'Big Tick'!

(iv) Our work with Business in the Community

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

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

So far BITC estimate that the programme has leveraged £14.8 million to support communities and Greggs is proud to have seconded eight Business Connectors.

Social responsibility
continued

2. A great place to work

Our people are what makes our business successful. We aim to provide our people with a great place to work, where they feel valued by listening, developing, rewarding and looking after them.

(i) Listening to our people

We hold an Employee Opinion Survey (EOS) to give our people the opportunity to provide feedback. In our 2014 EOS 89 per cent of our people responded and we achieved another high engagement score of 75 per cent (76 per cent in 2013) despite a year of significant change for our business.

We continue to promote initiatives to drive engagement in our business including service recognition programmes. In 2014 we implemented a feedback mechanism for our people to use on a daily basis – 'Your Ideas Matter'. This can be accessed by all our people and ideas are welcomed from all levels within the business and are reviewed monthly by our Operating Board. Since launching this initiative we have had over 180 ideas from our people to support improvements within the business.

We want all our people to be provided with a safe workplace and to be rewarded for their hard work, sharing in the Company's success.

(ii) Developing our people

We have developed our volunteering policy to allow our people to support groups and charities in their local communities. In 2014 a total of 512 days were donated, helping organisations as diverse as primary school Breakfast Clubs, food banks, youth clubs and the Rivers Trust. We are pleased that our volunteering achievements were recognised in 2014 when we were awarded the North East Employee Volunteering Business Award by Business in the Community.

We have continued to develop our people throughout 2014, providing role-specific development for our operational teams as well as generic management and leadership development. Our Career Pathways programme continues to thrive and provides four different routes to enable individuals to develop into management, middle management, senior management and potential directorship roles. In 2014 we launched our Brilliant Area Manager programme to all 143 of our Area Managers and the Brilliant ROM (Retail Operations Manager) programme and during 2014 all our ROM's have attended the four workshops. Our 'Brilliant' programmes also extend to our bakeries with the delivery of the Brilliant Bakery Operations Manager, Brilliant Engineering Managers and Brilliant Team Leader/Supervisor programmes all being delivered in 2014. 90 per cent of our management population have received appropriate development during 2014.

(iii) Rewarding our people

We want all our people to be rewarded for their hard work, sharing in the Company's success and are proud to have continued our long-standing commitment to share 10 per cent of our profits with all employees. We are delighted that we will be sharing £6.4 million of our 2014 profit with our people in 2015, and at the same time offering them the opportunity to participate in our annual 'Share Incentive Plan', enabling them to re-invest their profit share into Greggs shares. In 2014 we again ran our latest 'Share Save' scheme available for all employees with 12 months service, with 2,344 people taking part.

(iv) Looking after our people

Greggs is committed to ensuring the health and safety of all of our people and our customers.

In 2014 we set ambitious health and safety targets across both our retail and supply chain operations, however we fell short of achieving these with only a 7.5 per cent improvement in retail operations and a 10 per cent increase in supply chain.

We have therefore completed a number of change-driving initiatives across our Supply Chain, including the launch of a safety leadership programme for all Supply Chain management and also a culture change programme for all site teams. We expect this to really help drive our safety performance in 2015. In addition, our 'near miss' reporting process has become a key element of our approach and, as a consequence, our minor incident numbers have reduced by 23 per cent in comparison to 2013. Our North Lakes bakery celebrated three years without a reportable incident which demonstrated the site culture in relation to health and safety.

Within Retail Operations, we have completed a health and safety awareness week to drive awareness and performance and plan to repeat this in 2015. In addition, we are currently reviewing our health and safety training materials to ensure they support our shop teams in delivering great performance in 2015.

On a more personal level we offer all our people access to the free and confidential Employee Assistance Programme, available 24 hours a day, seven days a week. This provides our people with face-to-face or 'freephone' support, giving advice on anything from health and wellbeing to family and work issues. Our people are also eligible to join a Health Cash Plan through which employees can claim money back on the cost of check-ups and treatments for themselves and their families. We also offer childcare vouchers through our salary sacrifice scheme and incentives such as Cycle to Work that promote the health and wellbeing of our people. We have also launched an employee benefits site that offers our people access to a wide range of benefits for themselves and their families.

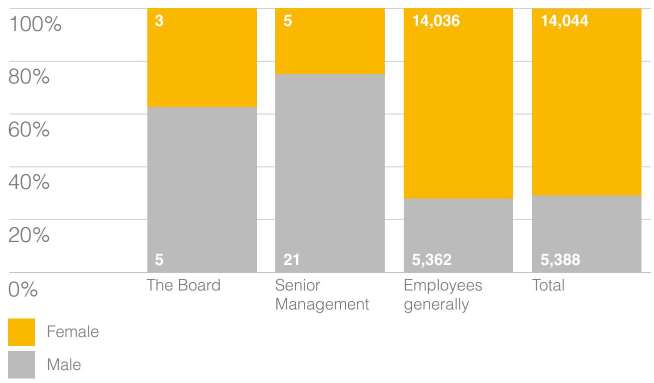
In 2014 we developed a human rights policy, a copy of which can be found on our corporate website, and we ensure that we treat our people in line with internationally proclaimed human rights principles. We have a range of policies in place, some of which are summarised below, demonstrating our effective management of human rights issues in the business:

Equality

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

Gender statistics

The Board is proud of its reputation for bringing the Company's best talent through the organisation and encouraging people to succeed regardless of gender, race or any other characteristic. As at 3 January 2015 one out of four of the most senior retail managers was a woman, as were four out of the twelve bakery managers. The Board continues to believe it is in the best interests of the Company to continue to bring women through to the very top of the organisation. The programme which we launched in 2012 to encourage more women to strive for the most senior positions in the business has continued to run.



Freedom of association

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

Bribery and corruption

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

Business conduct

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

Whistle-blowing

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

Political donations

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

Social responsibility
continued

3. Food our customers can trust

We are continually working to ensure our food is of great quality, so our customers can enjoy our products as part of a healthy, balanced diet. As customers have become more aware of health issues and food provenance we have undertaken work to address concerns around fat, calories, salt, the transparency of nutritional information and sustainability within our supply chain.

(i) Fat and calories

We are signatories to the Department of Health's Public Health Responsibility Deal and have signed up to specific food pledges on the provision of calorie information to customers and the removal of artificial trans-fats from ingredients.

We have also successfully grown sales of food-on-the-go 'Balanced Choice' products, under 400 calories, to over £50 million. The range growth has ensured we reduced the fat in our sandwiches by 12 per cent per 100 grams and reduced salt levels by 16 per cent per 100 grams without compromising on the great flavour and quality our customers expect.

(ii) Salt

Whilst the 2014 savoury range salt reduction target has been deferred to 2015, we continued to focus on meeting the Department of Health's recommended levels of salt in bread (1 gramme per 100 grammes of bread). The average salt content across our national bread lines has met this target since 2011. This year we have also successfully reduced the salt content in all our local bread lines and now all products in this category meet the DoH's target.

(iii) Provision of transparent nutritional information

Nutritional information is now available on the Greggs Rewards app, the website (in line with the Food Information to Consumers requirements) and at the point of purchase for our entire range. We have developed an Allergen Information Guide to be held in all shops which informs customers about the presence of all Major Serious Allergens, by recipe, upon request relating to all products. This allows customers to make informed decisions when they shop with Greggs.

(iv) Sustainability and food provenance

Customers have continued to take a greater interest in sustainability and food provenance in 2014. As a vertically-integrated business, we benefit from producing our own food for sale in our own shops, so we know exactly what ingredients go into our food and where these are sourced from. We have maintained our position that all ingredients in our own produced food remain free from artificial colours, artificial flavours, hydrogenated vegetable oils, added trans-fats and genetically modified ingredients.

Whilst we did publish, on our website, our Farm Animal Welfare strategy and Ethical Sourcing Statement in 2014, we did not, unfortunately, do so within the timelines set by the Business Benchmark on Farm Animal Welfare, and did not therefore achieve Tier 4 as hoped. We are however proud that our commitment to continuously improve and maintain the trust our customers have in our great tasting food is now available in the public domain. We are also proud of the recognition afforded us by Compassion in World Farming with a 'Good Egg Award' for changing all our shelled/whole egg to Free Range supply.

4. Reducing our impact on the world around us

We have a formal Environmental Policy in place and as a responsible business we believe we have an obligation to minimise the impact our operations have on the local and wider environment. These impacts include energy and fuel usage, generation of waste, water usage, effluent discharges and refrigeration emissions. Our most significant impacts continue to be energy/fuel usage and waste and our successful work in landfill reduction and the benefit of photovoltaic and voltage optimisation systems in our production sites have allowed us to demonstrate great progress against our carbon reduction target.

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

(i) Carbon footprint

(a) Global GHG emissions data

In line with Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, we are reporting on our greenhouse gas (GHG) emissions as part of our annual Strategic Report. Our GHG reporting year is the same as our financial year, 29 December 2013 to 3 January 2015.

Emissions from:	Tonnes of CO_2e	
	Current reporting year 2014	Comparison year 2013
Combustion of fuel & operation of facilities (Scope 1)	31,313	29,709
Fugitive emissions from refrigeration (Scope 1)	5,691	5,173
Gross electricity purchased for own use (Scope 2)	97,919	89,119
Company's chosen intensity measurement: – Tonnes of CO_2e per £ million of turnover	167.8	162.7
GROSS emissions include the use of PV generated electricity. NET emissions are with an intensity measure of	97,323 167.1	89,046 162.6

The methodology used to calculate our emissions is based on the UK Government's Environmental Reporting Guidelines (2013) and emissions factors from UK Government's 2014 GHG Conversion Factors for Company Reporting.

The uplift in carbon emissions is directly related to the Department of Environment and Rural Affairs ('DEFRA') electricity emissions factor which was increased by 10 per cent in 2014. If the DEFRA emissions factor had remained at the 2013 level then a 4.2 per cent improvement would have been achieved in 2014.

The 2013 emissions have been verified by the Carbon Trust; 2014 emissions are currently being verified by the Carbon Trust as part of the review of our carbon footprint.

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

(b) Carbon Trust Standard

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

(ii) Waste management

We are pleased that our continued focus on reducing waste to landfill has seen us surpass our target to recycle 90 per cent of waste from production sites. We now divert 100 per cent of waste from these sites. In addition to this, we continue to work closely with our waste management partners to ensure all of our waste streams are processed through the most sustainable routes.

(iii) Key initiatives

As part of our carbon reduction work we installed photovoltaic arrays on the roofs of ten of our bakeries in 2013. As a consequence of this activity, we have been able to generate 1,204,833 kWh of electricity in 2014, saving almost 596 tonnes of carbon.

Within our retail operations, we have continued to use our ECO shop to help develop and trial new initiatives to support our shop design. As a consequence we have further extended the inclusion of doors on self-service fridges, doors on shop fronts as well as individual technologies to reduce operational energy use on self-service fridges. We continue to investigate new technologies from across the industry and include trial activities within all of our environmental forums.

Work has continued to increase the proportion of sustainable palm oil used, with 100 per cent of our fats now using certified sustainable palm oil.

Social responsibility
continued

The following pages summarise our social responsibility performance in 2014 and present our targets for 2015.

Social responsibility targets: 2014

Making a difference to our communities	Continue to utilise the skills of our people to promote the employability of young people and those from marginalised groups, helping over 250 individuals in 2014.	✓
	Extend the Greggs Breakfast Club partnership scheme to fund a total of 300 clubs by the end of 2014.	✓
	Raise over £350,000 for the Greggs Foundation to support good causes in our local communities.	✓
	Double the amount of our unsold food that we donate to good causes.	✓
A great place to work	In our 2014 Employee Opinion Survey we will maintain our engagement score at 76 per cent.	✓
	We will continue to expand our volunteering programme, donating at least 500 days and introducing a process to match the skills of our graded managers with the needs of local community and charity groups.	✓
	We will reduce RIDDOR accidents by: – 20 per cent within our supply operations.	✗
	– 10 per cent within our retail operations.	✓
	65 per cent of management vacancies will be filled by internal candidates in 2014.	✓
Food our customers can trust	Deliver a 5 per cent salt reduction in our savoury range without compromising the great taste and quality of our food.	✗
	Deliver a 5 per cent fat reduction in our sandwich range without compromising the great taste and quality of our food.	✓
	Increase sales of our '400 calorie or less' range by 10 per cent.	✓
	Achieve 'Tier 4' ranking in the Business Benchmark on Farm Animal Welfare.	✗
Reducing our impact on the world around us	Increase the proportion of Certified Sustainable Palm Oil we use in fats in our own manufactured products to 100 per cent.	✓
	Deliver a 2.5 per cent improvement in our distribution fuel efficiency (measured in 'miles per gallon').	✓
	Address carbon emissions from energy usage (tonnes per £m turnover) in our operations by: – Reducing carbon in our production operations by 3 per cent. – Restricting carbon increase in our retail operations to 2.5 per cent.	✓
	Deliver zero waste to landfill from productions sites by the end of 2014.	✓

indicates the target is on schedule and that any interim objectives have been met.

indicates that the target/commitment is progressing on schedule but not completed.

indicates we are not on schedule to meet the requirement for the given period of time but we may achieve the target on future reviews.

Social responsibility targets: 2015

Continue to utilise the skills of our people to improve the employability of people from marginalised groups, raising the profile of all programmes under the umbrella sub-brand 'Fresh Start'.

Extend the Greggs Breakfast Club scheme to fund a total of 330 clubs, developing the model's sustainability through partnerships and dedicated fundraising.

Increase employee awareness of the work of the Greggs Foundation.

Double the amount of unsold food that we donate to good causes to 200 tonnes.

Trial an education partnership to promote greater understanding of food and nutrition.

Make Greggs an even greater place to work and measure this through a 2 per cent improvement in response to the question "I would recommend Greggs as a great place to work".

Ensure that 30 per cent of our volunteer days are matched to people's skills and abilities providing both development to individuals and adding real value to our local communities and the charities that we work with.

Improve employee safety/reduce RIDDOR accidents by:
– Supply: 10 per cent reduction of reportable incidents per hours worked.
– Retail: 5 per cent reduction of reportable incidents per hours worked.

Drive our diversity agenda by opening up 80 apprentice vacancies to school leavers in 2015.

Drive our service culture across the business by ensuring all teams participate in Superstar Service and Your Ideas Matter across the year.

Continue to increase the number of healthier options for customers by:
– Developing our 'Balanced Choice' range (increasing sales by more than 15 per cent).
– All pastry savouries will meet DoH Responsibility Deal salt targets.
– All own-label cold drinks will be developed to ensure they contain 'no added sugar'.

Implement our animal welfare strategy and achieve tier 3 ranking in the Business Benchmark on Farm Animal Welfare.

Develop customer communication re: allergens, undertake a benchmarking survey and formulate an activity plan.

Develop and trial a balanced scorecard for suppliers.

Complete our five-year target to reduce carbon per £m turnover by 25 per cent (compared to 2010 baseline) by:
– Delivering 1.5 per cent improvement in logistics distribution fuel efficiency (measured in 'miles per gallon').
– Reducing electricity usage across our retail operations by 3 per cent.
– Reducing energy usage (electricity and gas) in our supply chain operations by 3 per cent.

Board of Directors & Secretary

Name and title	**Ian Durant** **Chairman**	**Roger Whiteside** **Chief Executive**	**Richard Hutton, FCA** **Finance Director**	**Raymond Reynolds** **Retail Director**
				
Biography	Ian has a background in international financial and commercial management, with experience in the retail, property, hotels and transport sectors. His career includes leadership roles with the retail division of Hanson and Jardine Matheson, HongKong Land, Dairy Farm International, Thistle Hotels and Sea Containers and as Finance Director of Liberty International.	Roger began his career at Marks and Spencer where he spent 20 years, ultimately becoming head of its food business. He was then one of the founding team of Ocado, serving as Joint MD from 2000 to 2004. From 2004 to 2007 Roger led a successful turnaround as Chief Executive of the Thresher Group off-licence chain before joining Punch Taverns, ultimately becoming Chief Executive. Roger was appointed as Chief Executive of Greggs on 4 February 2013.	Richard qualified as a Chartered Accountant with KPMG and gained career experience with Procter and Gamble before joining Greggs in 1998.	Raymond joined Greggs in retail management in 1986. As General Manager during the 1990s, he built a significant new business for the Company in the Edinburgh region, and was appointed Managing Director for Scotland in 2002.
Appointed since	5 October 2011	17 March 2008 (Non-Executive Director until 3 February 2013)	13 March 2006	18 December 2006
Independent	Yes	Not applicable	Not applicable	Not applicable
External appointments	Chairman of Capital and Counties PLC; Non-Executive Director of Greene King plc, and Home Retail Group PLC.	No external appointments.	Trustee of the Greggs Foundation, and Chairman of Business in the Community's North East Regional Advisory Board.	Director of the Sunderland Business Improvement District, and North East Chamber of Commerce Board member.
Committee membership	Chairman of Nominations Committee	Not applicable	Not applicable	Not applicable

Allison Kirkby
Non-Executive Director

Allison is currently the Executive VP and Group CFO of Tele 2, a major European telecoms company. Prior to Tele 2, she spent two decades in the FMCG sector at Proctor and Gamble in a variety of senior financial and operational roles before moving to the TMT sector, first at Virgin Media and then as Group CFO at Shine, a division of 21st Century Fox. Allison is a Fellow of the Chartered Institute of Management Accountants.

30 January 2013

Yes

No additional activities.

Chair of Audit Committee; Remuneration and Nominations Committee member

Helena Ganczakowski
Non-Executive Director

Helena worked for Unilever for 23 years and held senior positions in brand management and marketing including UK Marketing Director and, ultimately, Head of Global Agencies. Helena has a PhD in Engineering from the University of Cambridge.

2 January 2014

Yes

Helena is currently a Non-Executive Director of Croda International Plc, and also runs her own consulting business working with companies ranging from start-up businesses to FTSE 100 constituents, helping them to develop and implement strategies.

Audit, Remuneration and Nominations Committee member

Peter McPhillips
Non-Executive Director

Peter spent most of his executive career in food manufacturing having held a number of executive positions including Divisional Managing Director of Hillsdown Holdings, Director of Terranova (the chilled foods business demerged from Hillsdown Holdings), and ultimately as UK Managing Director of Uniq plc. More recently, Peter was European Chairman of Hain Celestial Group.

10 March 2014

Yes

Peter is currently a Non-Executive Director of Browns Food Group, a privately-owned chilled and frozen food producer.

Audit, Remuneration and Nominations Committee member

Sandra Turner
Senior Independent Non-Executive Director

Sandra has been involved in the retail sector throughout her career and was employed by Tesco PLC, latterly as Commercial Director for Tesco Ireland, from 1987 to 2009. Prior to this, she had worked in sales and marketing roles for Unilever and Wilkinson Sword.

1 May 2014

Yes

Sandra is currently a Non-Executive Director of Carpetright plc, McBride plc and Huhtämaki OYJ.

Chair of Remuneration Committee; Audit and Nominations Committee member

Jonathan Jowett
Company Secretary & General Counsel

Jonathan is a lawyer by profession, and has held the position of Company Secretary in a number of FTSE 250 and FTSE Smallcap companies. His previous employers include Avon Cosmetics Limited, SSL International plc, Wagon plc and Bakkavor Group.

12 May 2010

Not applicable

Member of the British Retail Consortium Policy Board; Trustee of The Percy Hedley Foundation.

Secretary to Board and all its Committees

Governance

We have a Board of Directors with diverse experience and backgrounds, and an appropriate balance of independent Non-Executive and Executive Directors

Chairman's introduction

I am pleased to introduce to shareholders our Governance Report for 2014.

There have been a number of changes to the Board this year, as Iain Ferguson and Julie Baddeley both left us following the AGM in May. After considering our strategy, and the needs of the business both now and over the next few years and the skills set which most closely matches those needs, the Nominations Committee evaluated possible candidates.

As announced in December 2013, Helena Ganczakowski joined the Board on 2 January 2014. Having taken further external advice on the market, we then appointed Peter McPhillips to the Board in March and in May Sandra Turner joined us. Peter brings extensive food manufacturing experience and Sandra a supermarket and food-retailing background. Sandra has also assumed the role of Senior Independent Director and Chair of the Remuneration Committee.

I believe that we have a Board of Directors with diverse experience and backgrounds and an appropriate balance of independent Non-Executive and Executive Directors, which is the basis of our governance structure. All appointments to the Board are made against a culture within the Company of openness, challenge and debate, and the size of the Board facilitates this. Each of the Non-Executive Directors serves on each of the three main Board committees and is able to take account of the relationship between the work of the committees.

The Board gave particular time and attention this year to managing a smooth succession for the new Non-Executive Directors, ensuring that the strategy that was introduced in the summer of 2013 was pursued with vigour and that progress against the plan was properly monitored and debated.

At our AGM in May, we asked shareholders to vote by poll, the first time that we have adopted what is now regarded as best practice. I would like to thank shareholders for adopting this procedural change and, of course, for their support across all of the resolutions that were tabled.

Our two main committees, Audit and Remuneration, have had a quieter year in terms of their need to adopt new legal and governance requirements, and that has allowed them to focus on the ongoing challenges we face in the competitive food-on-the-go sector in which we operate. The Audit Committee is now considering what changes, if any, should be made to our practices in order to ensure that we comply with the new version of the Governance Code, which will apply to our financial year beginning 4 January 2015.

In December 2013 it was announced that we had left the FTSE 250 Index as a consequence of the review of relative market sizes of companies. However, as of December 2014, we have been readmitted to that index. As a result of this, certain provisions of the Corporate Governance Code will again be applicable.

I look forward to welcoming shareholders to the AGM which will be held on 30 April 2015 and to receiving and answering your questions.

Ian Durant
Chairman

Strategic Report
Directors' Report
Accounts

The Company is subject to the UK Corporate Governance Code issued by the Financial Reporting Council. The edition of the Code issued in September 2012 applied throughout the 2014 financial year. This Governance Report, together with information contained elsewhere within the Directors' Report, describes how the relevant principles and provisions of the Governance Code were applied to the Company in 2014 and will be relevant to the Company for the 2015 financial year.

In the Annual Report 2013, the Board reported that, as it had fallen outwith the top 350 companies by market capitalisation, certain provisions of the Governance Code no longer applied, but that the Board would consider a voluntary adoption of such provisions provided that it would not be unduly onerous or expensive. The Board took the view that given the short length of service of a number of the Non-Executive Directors, it was unlikely that undertaking an externally-facilitated Board evaluation would be a sensible use of shareholders' funds. Consequently the evaluation was undertaken on a questionnaire/interview basis effected by the Company Secretary and then reported to and debated by the Board.

The Company was re-elected to the FTSE350 index on 22 December 2014 and intends to hold an externally-facilitated evaluation later in 2015.

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

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

The Board

Effectiveness

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

The Board meets regularly to discharge its duties. At these meetings, it reviews strategy, financial performance against key indicators, resources, risk management and other matters reserved for the Board. Whilst executive responsibility for running the Company's business rests ultimately with the Chief Executive, the Non-Executive Directors ensure that the strategies proposed by the Executive Directors are fully discussed and critically examined prior to adoption.

The Board schedules six meetings per year and meets on an ad hoc basis as required. In 2014 three additional short meetings were held to consider the restructuring announced at the beginning of the year, and the stronger trading position and the requirement to issue updated guidance to the market.

Attendance at scheduled meetings held during the year is recorded in the table below, where the number of meetings actually attended are shown with the number of meetings that the individual could have attended.

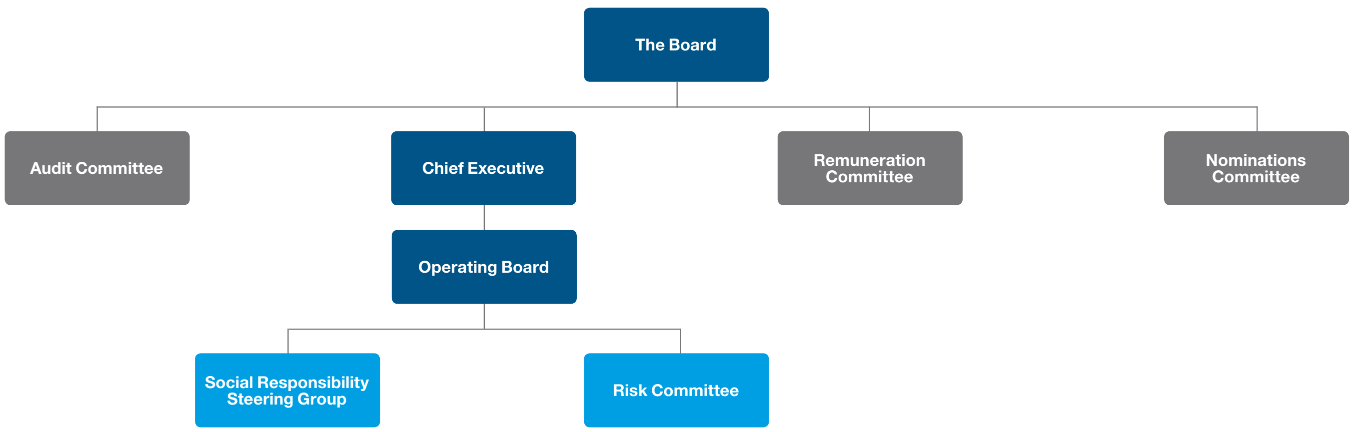
	Main Board	Audit Committee	Remuneration Committee	Nominations Committee
Number of meetings held	**6**	**5**	**3**	**2**
Ian Durant	6/6	–	–	2/2
Roger Whiteside	6/6	–	–	–
Richard Hutton	6/6	–	–	–
Raymond Reynolds	6/6	–	–	–
Helena Ganczakowski[1†]	5/6	4/5	2/3	2/2
Allison Kirkby	6/6	5/5	3/3	2/2
Peter McPhillips[2]	4/4	3/3	1/1	0/0
Sandra Turner[3]	3/3	2/2	1/1	0/0
Julie Baddeley[4]	2/3	1/3	1/2	1/2
Iain Ferguson[4]	3/3	3/3	2/2	2/2

[1] Appointed 2 January 2014.
[2] Appointed 10 March 2014.
[3] Appointed 1 May 2014.
[4] Resigned on 1 May 2014.
† Helena was unable to attend one series of meetings for personal reasons, but had reviewed all papers beforehand and provided a number of observations and questions that were raised by other Directors.

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

All Directors are invited to attend the Audit Committee, and the Chief Executive attends the Remuneration and Nominations Committees.

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



Governance
continued

Board modus operandi

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

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

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

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

Diversity

The Board believes it is in the best interests of the Company to continue to bring women through to the top levels of the organisation and, as a result of this belief, a programme which was launched in 2012 to encourage more women to strive for the most senior positions in the business. Our gender reporting is now contained on page 31 of the Strategic Report.

Succession, development and evaluation

Whilst the Board is satisfied that a process is in place for orderly succession to the Board and to positions of senior management, so as to maintain an appropriate balance of skills and experience within the Company and on the Board, nevertheless it intends to increase the focus on executive development and succession planning in 2015 and beyond. The Chief Executive meets with the Chairman and the Non-Executive Directors in order that succession and development plans can be drawn up for Executive Directors and members of the Operating Board.

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

Evaluation

The performance of the Board, its Committees and of all Directors is evaluated annually by a formal and rigorous process. For the review relating to 2014, each Director responded to a questionnaire agreed between the Chairman and the Company Secretary, and independently rated the Board's and its Committees' performance against the objectives set at the beginning of the year.

The output from the review of 2013 led to the following matters being included as objectives for 2014:

- A review of the way in which social responsibility was positioned, to include a consideration of the Company's vision and values.
- The Chairman to be accompanied by a Non-Executive Director to gain feedback from investors with a significant shareholding.

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

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

The resulting Board paper, and Board debate gave rise to a series of actions which were incorporated into the Board's objectives for 2015.

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

Election and re-election of Directors

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

The Company's articles of association require that all Directors must retire and seek election at the first AGM following appointment. Accordingly, Sandra Turner will resign as a Director and offer herself for election at the AGM to be held on 30 April 2015. Furthermore, the Board has resolved that, in line with Governance Code provision B.7.1, all other Directors will be subject to annual re-election by shareholders.

Board Committees

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

The Audit Committee currently consists of four independent Non-Executive Directors: Allison Kirkby (Chair), Helena Ganczakowski, Peter McPhillips and Sandra Turner. The Committee met five times in the year, and a fuller report on its activities is set out on pages 43 to 47.

The Remuneration Committee currently consists of four independent Non-Executive Directors: Sandra Turner (Chair), Helena Ganczakowski, Allison Kirkby and Peter McPhillips. The Committee's main duties (which it discharged during the year) are set out within the Directors' Remuneration Report which is set out on pages 48 to 63 of this Annual Report. This includes for information purposes the Board's Policy on Remuneration, which was approved by shareholders at the AGM held on 1 May 2014. A separate Executive Director Committee, after discussion with the Chairman, sets the fees for the Non-Executive Directors so as to ensure that no Director is involved in setting his or her own remuneration.

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

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

During the year the Committee recommended to the Board the appointment of Peter McPhillips and Sandra Turner as independent Non-Executive Directors.

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

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

New Non-Executive Directors are also encouraged to provide formal feedback of their first months on the Greggs Board during a Board meeting.

Risk management

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

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

Relations with shareholders

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

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

Following his appointment as Chairman on 15 May 2013, Ian Durant undertook to meet with a small number of significant institutional shareholders from time to time, and be accompanied by one of the other Non-Executive Directors. One conference call meeting was held in the year, when Ian was accompanied by Sandra Turner, following her appointment as Senior Independent Director on 1 May 2014, and Allison Kirkby, as Chair of the Audit Committee.

The Company Secretary and the Company's Brokers draw the attention of the Board to all relevant shareholder communications. The Board also reviews briefings and comments by analysts in order to maintain an understanding of market perceptions of the Company.

The Annual General Meeting (AGM) is well-attended and a short presentation of business performance is given to attendees by the Chief Executive (although no non-public sensitive information is shared). The Chairman and the Chairs of the Board Committees are available to answer any issues raised and any newly-appointed Directors being available to meet shareholders. During informal sessions both before and after the meeting, the Chairman and all Directors are available to meet with any of the 60 or so individual private shareholders who are in attendance and who wish to ask questions. This is in addition to the opportunity given to shareholders to ask questions of the Board during the formal meeting, which session is always welcomed by those in attendance.

At the AGM the balance of proxy votes cast for and against each resolution and the number of abstentions is displayed. All substantial issues, including the receipt of the Annual Report and Accounts, are proposed at the AGM as separate resolutions. For the first time, at the AGM held on 1 May 2014, all resolutions were determined by poll, in accordance with best practice, and the Board has decided that this practice will continue.

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

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

Governance
continued

Substantial shareholdings

At 3 March 2015 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
FMR	5,200,200	5.14
Templeton Investment Counsel	5,059,689	5.00
Norges Bank	4,041,681	3.99

Accountability, audit and going concern

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

The actions undertaken by the Audit Committee in confirming its advice to the Board included the consideration of a detailed review that had been undertaken by Head of Business Assurance, and reviewing the Annual Report as a whole to confirm that it presents a fair, balanced and understandable assessment. In considering the advice of the Audit Committee and having reviewed the Annual Report including the contents of the Strategic Report on pages 02 to 35 together with the statutory accounts themselves, the Board duly considers the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable, and provides the necessary information for shareholders to assess the Company's performance, business model and strategy.

A statement of Directors' responsibilities in respect of the preparation of accounts is given on page 64. A statement of auditor's responsibilities is given in the report of the auditor on page 67.

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 73.

Additional Information

Details of the proposed dividend are set out on page 05, and additional information as required by law is set out on pages 97-98, and is incorporated by reference into the Directors' Report.

Disclosure of information to the auditor

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

By order of the Board

Jonathan D Jowett
Company Secretary

Greggs plc (CRN 502851)
Fernwood House
Clayton Road
Jesmond
Newcastle upon Tyne
NE2 1TL
4 March 2015

Audit Committee

I am satisfied that the activities of the Committee enable it to gain a good understanding of the key matters impacting the Company

Introduction

I am pleased to introduce the report of the Audit Committee for 2014.

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

There have been a number of changes to the membership of the Audit Committee during 2014 as detailed below and we have worked hard to ensure that all new Committee members received appropriate induction and training.

I have set out below the main matters considered by the Committee during the year and the conclusions drawn. We meet formally at key times within our reporting calendar and the agendas for our meetings are designed to cover all significant areas of risk over the course of the year and to provide oversight and challenge to the key financial judgements, controls and processes that operate within the Company.

The Committee will continue to keep its activities under review in the light of regulatory developments and the emergence of best practice. In particular, the 2014 UK Corporate Governance Code will take effect for the first time in our 2015 financial year and we expect there to be clarification of the UK implementation of the EU Directive and Regulation on statutory audit.

Overall I am satisfied that the activities of the Committee during the year enable it to gain a good understanding of the key matters impacting the Company along with oversight of the governance and operation of its key controls and ultimately to draw the conclusions set out in the report below.

Allison Kirkby
Chair of the Audit Committee

Audit Committee
continued

Composition
The Audit Committee is comprised of the following:

Allison Kirkby (Chair)
Helena Ganczakowski (appointed 2 January 2014)
Peter McPhillips (appointed 10 March 2014)
Sandra Turner (appointed 1 May 2014)

It is the practice of the Company for all independent Non-Executive Directors to serve as members of the Audit Committee. Helena Ganczakowski, Peter McPhillips and Sandra Turner were each appointed to the Committee when they joined the Board during the year on the dates shown above. Julie Baddeley and Iain Ferguson resigned from the Audit Committee when they stepped down from the Board on 1 May 2014.

Training is provided for new members of the Audit Committee by way of a thorough induction process which includes access to the external auditor, the Head of Business Assurance and relevant members of management.

The Directors' biographies on pages 36 and 37 detail the Committee members' previous experience. The Board considers that Allison Kirkby has recent and relevant financial experience and is confident that the collective experience of the members enables them to act effectively as an Audit Committee.

Role and responsibilities
The Terms of Reference of the Committee can be accessed at: corporate.greggs.co.uk/Investor centre/Corporate governance/ Company documents.

The key responsibilities of the Audit Committee are:

- ensuring that the accounting and financial policies of the Company are proper and effective;
- assisting the Board in fulfilling its oversight responsibilities by monitoring the integrity of the accounts and information published by the Company and reviewing significant financial judgements contained in them;
- advising the Board on whether it believes the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy;
- reviewing the internal financial controls and the Group's approach to risk management;
- oversight of whistle-blowing arrangements;
- monitoring compliance with the Listing Rules and the recommendations of the Governance Code;
- oversight of the Company's external and internal auditors and reviewing the effectiveness and objectivity of the audit process; and
- reporting to the Board on how it has discharged its responsibilities.

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

The Committee normally invites the Company Chairman, the Executive Directors, the Head of Business Assurance and the external auditor to attend its meetings. Time is set aside bi-annually for discussion with the external auditor and with the Head of Business Assurance, in each case in the absence of all Executive Directors. The Committee also has access to the Company's management team and to its auditor and can seek further professional advice, at the Company's cost, if required. The Chair has regular contact with the Finance Director and internal and external auditors, in addition to scheduled Committee meetings to ensure that emerging issues are addressed. She also has access to and, in 2014, met with a partner independent of the partner responsible for the audit.

Financial reporting
In 2014 the Audit Committee reviewed the 2013 Annual Report, interim results, preliminary results announcement and reports from the external auditor on the outcome of their reviews and audits.

During the year, and up to the date of this report, the Committee considered key accounting issues and judgements and related disclosures in the Group's accounts. The significant areas of judgement considered by the Committee in relation to the accounts for the 53 weeks ended 3 January 2015 are as follows:

Area of focus	Action taken
Asset impairment	
The accounts include asset impairment provisions made by assessing expected future cash flows. The results of the impairment reviews were presented by management to the Committee based on the following methodologies. For shop assets historic cash flows including attributable overheads are used as a base, with a 0 per cent growth rate and a discount rate of 10 per cent applied over an appropriate period based on the remaining lease term. For supply chain assets the potential net realisable value of the sites was considered. The total cumulative impairment held against assets on the balance sheet at the end of the year was £4,186,000 (2013: £5,796,000).	The Audit Committee considered the sensitivities of the assumptions used and assessed whether any reversal of impairment was indicated by improved trading in the impaired shops. It concluded that the impairment provisions were appropriate and that they reflected suitably the future plans of the business.
Accounting for onerous leases	
Onerous lease provisions have been made for shops which have been vacated, have been identified for closure or re-site or are under-performing. The key area of judgement in making this provision is the determination of the length of time it will take to find a suitable exit opportunity for each lease. The onerous lease provision held on the balance sheet at 3 January 2015 was £3,155,000 (2013: £3,672,000).	The Committee reviewed management's assessment in respect of these leases and concluded that the assumptions made were appropriate.
Dilapidations	
Dilapidation provisions have been made on a lease by lease basis and are based on the Group's best estimate of the likely committed cash flow. The balance held in respect of dilapidation provisions at the end of the year was £3,456,000 (2013: £1,689,000).	The Committee reviewed management's assessment of the need for dilapidation provisions and concluded that the principles applied were adequate.
Going concern	
The accounts continue to be prepared on a going concern basis.	Information provided by the Finance Director regarding future financial plans, risks and liquidity is presented to the Committee to enable them to determine whether the going concern basis of accounting remains appropriate. The Committee reviewed and challenged the assumptions used and concluded that the Board is able to make the Going Concern statement on page 42 of the Directors' Report.
Accounting implications of planned investments in processes and systems	
The Company is making a major investment in the next few years in new process and systems platforms which will result in the recognition of a significant intangible asset.	The Company has reviewed its accounting policy in this area and ensured that a clear framework is in place to classify items that are capital in nature correctly. The Committee has reviewed this framework and has established that the principles are sound and the correct approach is being adopted by management. The Committee also reviewed the amortisation rates that will be applied to the investment and the point at which amortisation will commence.
Understanding and treatment of exceptional items	
The accounts include exceptional items in both the current and prior years.	The Committee considered the accounting requirements of IAS1 relating to the separate disclosure of material items of income or expense together with the FRC's guidance on the subject with reference to the costs arising as a result of the strategic review announced in 2013 and the restructuring of in-store bakeries and support operations announced at the start of 2014. The Committee sought to ensure that the treatment followed consistent principles and that reporting is suitably clear. The Committee gave careful consideration to the judgements made in the separate disclosure of non-underlying items, both in respect of events occurring in 2014 and also changes in circumstance in respect of provisions relating to events from prior years. It concluded that separate disclosure should be made of items of expenditure incurred in 2014 relating to the restructuring activity and additional costs incurred in relation to the closure of Greggs moment stores in 2013.
Accounting for defined benefit pension schemes	
The determination of the defined benefit obligation depends on the selection of certain assumptions including the discount rate, inflation rate and mortality rates. The net liability held in relation to the defined benefit pension scheme at the end of 2014 was £8,518,000 (2013: net asset of £55,000).	Pension scheme liabilities are assessed on behalf of the Company by independent actuaries. The Committee assesses the underlying assumptions to ensure that they are appropriate and also discusses the appropriateness of the assumptions with the external auditor.
Accounting for supplier incentives	
Supplier incentives and volume rebates are received routinely in the normal course of the business. Given the well-publicised accounting issues at other retail businesses, the Committee carried out a review of the Company's practice in this area. The Company receives around £6 million per annum in rebates and supplier funding.	The Committee considered a report detailing the Company's accounting treatment of supplier incentives provided by the Finance Director together with a report from the Head of Business Assurance who made this a key area of focus during the year. The Committee is satisfied that the Company's accounting treatment in respect of supplier incentives is appropriate and prudent.
Fair, balanced and understandable	
The Committee is responsible for advising the Board on whether it believes the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable.	The Committee received a report from the Head of Business Assurance who is not involved in the preparation of the annual report and accounts and who conducted an independent review of it. The following factors were considered during the course of this review: – Ensuring that all the statements are consistent with one another; – Verifying that figures in the narrative sections are consistent with the relevant financial detail; – Identifying any duplication of information; – Confirming that 'bad news' is included, as well as 'good news'; and – Highlighting any inappropriate use of technical language or jargon. The Audit Committee considered the feedback from this report when making its recommendation to the Board regarding fair, balanced and understandable.

Audit Committee
continued

Financial reporting continued

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

- whether any changes in accounting policy were required following changes in the business or in legislation;
- whether the Company's tax policy remains appropriate;
- the impact of changes in accounting standards and their relevance, if any, to the Company; and
- reports from the Company Secretary and Finance Director which assess the Company's compliance with Listing Rules.

External audit

Retendering the external audit

During the year the Committee carried out a comprehensive tender exercise for the provision of external audit services. Careful consideration was given to the firms to be invited to tender, following which the Committee decided that the only firms with the local capability to undertake the audit were the 'Big Four'. PricewaterhouseCoopers had been engaged by the Company in a consultancy role which created a conflict of interest and so were unable to participate in the tender process. Consequently Ernst & Young, Deloitte and the incumbent auditor, KPMG, were invited to join the tender process.

All three firms met the Chief Executive, the Chair of the Audit Committee, the Executive Directors and key senior managers within the business and were also given access to relevant Company information. The three firms submitted formal proposals which were evaluated along with the feedback from the individual meetings and two of the firms were invited to make presentations to a selection panel comprising the Chair of the Audit Committee and another Committee member, the Finance Director, the Head of Business Assurance and several senior finance managers. The presentations were scored against pre-determined parameters. The panel concluded that KPMG had the stronger proposal and that it would recommend to the Board that KPMG be retained as auditor.

The Committee continues to monitor legislative and best practice changes in this area, in particular the UK Government and the Financial Reporting Council's responses to the recent EU Directive and Regulation on statutory audit.

KPMG has been the Company's auditor for more than 20 years and the transitional rules in the EU Directive require an initial change of audit firms no later than 2020. Having reappointed KPMG in 2014 the Committee expects to change audit firms in accordance with the requirements of the EU Directive. The Committee will continue to consider annually whether to conduct an audit tender for audit quality or independence reasons.

Assessing external audit effectiveness

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

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

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

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

Appointing the auditor and safeguards on non-audit services

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

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

The Audit Committee has reviewed whether, and is satisfied that, the Company's auditor, KPMG, continues to be objective and independent of the Company. KPMG does perform non-audit services for the Group but the Audit Committee is satisfied that its objectivity is not impaired by such work. The Committee has decided to await the outcome of the UK Government's consultation and resulting legislation governing such work before deciding whether it is appropriate for KPMG to be considered to carry out any non-audit work once such legislation is in place.

In 2014, non-audit fees paid to KPMG and related KPMG operations amounted to £58,000 (which is 41 per cent of the audit fee for the year) and principally related to taxation services and pension scheme audits.

Appointment of auditor

At the 2014 AGM KPMG Audit Plc was appointed as auditor of the Company. KPMG Audit Plc has advised the Company that, due to an internal reorganisation, it has decided to wind down its audit business and transfer it to KPMG LLP. KPMG Audit Plc has notified the Company that it is not seeking reappointment at the AGM and accordingly a resolution for the appointment of KPMG LLP will be proposed at the forthcoming AGM.

Risk management and internal control

Internal Control

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

Whistle-blowing

There were 11 events in the year, relating to complaints about individual treatment by line management, product theft and non-compliance with procedures. The events were reported either directly to the Chair of the Audit Committee by telephone or email, or came in via another external route. In each case the issues were investigated, a judgement was made and action taken by senior management, supported by Business Assurance and with an appropriate level of discretion. The outcome of all matters was reported to the Audit Committee during the year.

Risk Management Process

The Audit Committee undertakes a review of the risk management process in the Group at least annually. This process is detailed on page 26, and was reviewed by the Committee to determine the appropriateness of the process in light of the risks identified. The key areas that the Committee has considered are as follows:

Area of focus	Action taken
Review of Principal Risks and Uncertainties	The Committee considered the proposed disclosure of principal risks and uncertainties within the Annual Report which had resulted from the Risk Committee's review of the risks facing the Company. The Committee recommended that some of the risks previously disclosed be removed from the disclosure as they were no longer considered sufficiently serious to merit disclosure.
Structural change and impact on employee relations	A detailed report was produced, based on discussions with a range of managers from across the business. A summary was presented to the Committee, to confirm that all relevant issues had been identified and actions taken were appropriate.
Food safety	The Committee reviewed the output from the Retail Audit team to gain assurance that controls were in place to manage the Company's exposure to food safety risks.
Loss of major production site	The Committee considered the Group's contingency arrangements, including documentation and testing of plans. Third party assurance was obtained from the Company's insurers through site inspections.

Internal audit

The work of the Internal Audit function is set out in more detail within the Principal Risks and Uncertainties section on pages 24 and 25 of this Annual Report. The team is led by the Head of Business Assurance, supported by the Risk Manager and 16 auditors, the majority of whom work across the retail estate to provide assurance over the Company's retail operations. The Audit Committee approves the annual plan for the team and monitors progress against that plan. The effectiveness of the Internal Audit team and its level of resource are reviewed by the Committee at least annually.

Committee effectiveness

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

Allison Kirkby
Chair of the Audit Committee
4 March 2015

Directors' Remuneration Report

As Chair of the Remuneration Committee I am pleased to present our Directors' Remuneration Report for the 53 weeks ended 3 January 2015

Annual statement

As Chair of the Remuneration Committee and on behalf of your Board, I am pleased to present our Directors' Remuneration Report for the 53 weeks ended 3 January 2015, my first report following my appointment as Chair in May 2014.

The Annual Report on Remuneration will be subject to an advisory shareholder resolution at the Company's Annual General Meeting on 30 April 2015. Our Directors' remuneration policy was approved by shareholders at our AGM on 1 May 2014 and became effective for three years from that date. We have set out our policy again to allow cross-reference against its operation during the year.

Business strategy and link to remuneration policy

Following a strategic review of the business in 2013 our remuneration policy was adjusted so that from 2014 the performance conditions for Directors' incentives complemented the new strategy.

Our annual bonus provides a strong link to the operational delivery of the business strategy. The Performance Share Plan focuses the Executive Directors on the longer-term outputs of that strategy, by rewarding sustained improvements in earnings per share and long-term return on capital employed.

As outlined in the Chairman's Statement and Chief Executive's Report, we have had a year of outstanding performance, leading to record-breaking profits. Despite only being in year one of our change programme these results are very encouraging. Although 2015 will be a year of further change, we have started the year well and I believe this remuneration policy will support the business in delivering continued progress and good financial results.

Performance in 2014 and incentive payments

The Company performed very well against its financial targets as described in the Financial Review on pages 20 and 21. Against the targets set at the beginning of the year, profit and sales performance resulted in 100 per cent of the maximum potential being payable under these elements of the bonus scheme. There was an equally strong performance with regards to the strategic objectives that were set. Our step change programme continues in line with expectation with savings being realised; the implementation of our new IT systems platform has made good progress with key projects delivering significant returns in 2014 and our return on investment in our refit shops delivered significantly above target. Accordingly there is also a 100 per cent bonus payment against the strategic element. Overall, annual bonuses representing 125 per cent and 90 per cent of salary will be payable to the Chief Executive and other Executive Directors respectively. The Committee is satisfied that this level of bonus reflects the exceptional financial and strategic performance during the year.

Any element of the bonus earned above 50 per cent of the maximum will be paid in shares for the Chief Executive and Executive Directors subject to a two-year holding period.

Under the Performance Share Plan, awards made in March 2012 are due to vest in March 2015. These awards are based on EPS growth over the three years to the end of 2014 and relative total shareholder return (TSR) against a comparator group. The EPS performance condition measured to the 2014 financial year end has not been achieved. At the time of writing it is not clear whether the TSR condition will be achieved or not, as the calculation is made immediately prior to vesting in April 2015. For the purpose of calculating remuneration payable we have assumed a threshold vesting under the TSR element, which is reflective of the current level of performance.

Decisions taken by the Committee in 2014

In 2013 the Committee conducted a full review of the annual bonus and Performance Share Plan in order to support the new business strategy and prepared the Directors' Remuneration Report for the new disclosure regulations. During 2014 the business conducted by the Committee related primarily to the more usual standing items, including the determination of base salary levels and performance conditions for the annual bonus and the 2014 Performance Share Plan awards.

Approach for 2015

The Committee has reviewed the operation of our remuneration policy for 2015 and has concluded that the policy should be implemented on an unchanged basis.

The Chairman's fee has been reviewed as planned following his appointment, and has been increased to a broadly mid-market level for a company of our size and type. The salary increase for Executive Directors was 2.4 per cent. This was in line with the average increase for the workforce generally. Increase in salaries and fees took effect from 1 January 2015.

Targets for the 2015 annual bonus have been set in line with the financial plan for the business for the year and the rolling five-year strategic plan. Due to the commercial sensitivity of these they are not disclosed within this report, but will be disclosed retrospectively in next year's report.

Under the Performance Share Plan the Committee has considered the performance conditions and has determined that the EPS and ROCE performance conditions should continue to apply with an equal weighting given to each. Following a review of our business performance against the strategic plan, both the EPS and ROCE target ranges have been increased for the 2015 awards, so as to ensure they remain appropriately stretching.

The Committee remains mindful of ongoing developments in executive remuneration best practice and the views of our shareholders and actively welcomes feedback on our remuneration policy and its implementation.

We believe that our policy continues to deliver a robust link between reward and performance and is aligned with our strategic goal of delivering long-term sustainable shareholder value. We look forward to receiving your continued support at this year's AGM.

Sandra Turner
Chair of the Remuneration Committee

Regulatory framework

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

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

The annual statement by the Chair of the Remuneration Committee and the Annual Report on Remuneration will be subject to an advisory vote at the 2015 AGM.

The Regulations also require our auditor to report to shareholders on the audited information within this Remuneration Report and to state whether, in their opinion, the relevant sections have been prepared in accordance with the Act and the Regulations. The auditor's opinion is set out on pages 65 to 67 and we have indicated appropriately the audited sections of this Remuneration Report.

Remuneration policy report (as approved by shareholders on 1 May 2014)

Our Directors' remuneration policy was approved by shareholders at our AGM on 1 May 2014 and became effective for three years from that date. We have set out our policy again in this year's report to enable cross-reference against its operation during the year.

The Company's remuneration policy is to continue to provide competitive remuneration packages that will incentivise Executive Directors to achieve sustainable long-term growth and value that will best serve the interests of the Company, its shareholders, its employees and customers.

Directors' Remuneration Report
continued

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

Element	Purpose and strategy	Operation	Maximum opportunity
Base salary	To attract and retain high calibre individuals in order to promote the long-term success of the business.	Reviewed and set annually in January. Benchmarked periodically by the Committee against the remuneration levels for executives in similar roles in companies of a comparable size. Individual performance and contribution is recognised in setting salary levels. Salaries are paid monthly in cash.	Key reference points for salary increases are market and economic conditions and, in line with our values, the approach to employee pay throughout the organisation.
Benefits	To support a competitive remuneration package in the marketplace.	Benefits include provision of a Company car (or cash in lieu), private medical health care, life assurance and permanent health insurance.	No maximum limit is prescribed particularly as the cost of providing insured benefits fluctuates over time. However, the Committee monitors on an annual basis the overall cost of the benefit provision.
Pension	To support a competitive remuneration package in the marketplace.	Executive Directors can elect to either: – participate in the Company defined contribution pension scheme (up to a cap). Above the cap Executive Directors receive a salary supplement; or – take cash in lieu of this contribution paid as a supplement to their salary on a monthly basis. The Executive Directors are able to make this choice on an annual basis. The remuneration adjustment is disclosed later in this report.	Up to 22.5 per cent of base salary contribution for the Chief Executive and up to 15 per cent of base salary for other Executive Directors.
Annual bonus (including profit share)	To incentivise achievement of annual targets and objectives consistent with the short to medium-term strategic needs of the business, so as to encourage sustainable growth in the Company's operating profits.	The bonus will be based on a mix of business KPIs, with operating profit being the largest component of the mix of metrics and this will not be less than 50 per cent of the overall mix. Targets for each metric are set in advance and in line with business planning objectives set by the Committee. Each Executive Director is entitled to participate in the Company's profit sharing scheme available to all employees. The value of this is then deducted from their annual bonus and is subject to the individual cap. The Committee will use appropriate underpins for any non-profit based element of the annual bonus such that payment under these elements may be scaled back (potentially to zero), at the discretion of the Committee, in the event that the operating profit performance for the year is judged to be running significantly below that required for the achievement of the long-term strategy. Any bonus paid in excess of 50 per cent of the maximum will be payable in shares, deferred for two years with vesting subject to continued service. The dividends payable on deferred bonus shares are paid to the individual as they fall due. Recovery and withholding provisions allow the Company to recoup annual bonus payments within three years in the event of misstatement of performance, error or misconduct, where this has led to an overpayment in the view of the Committee. There is a flexible mechanism which allows the Company to withhold outstanding deferred or future remuneration, or recover the overpayment direct from the individual concerned.	Capped at 125 per cent of base salary for the Chief Executive and 90 per cent of base salary for other Executive Directors. On target performance delivers a bonus of 60 per cent of the maximum. No more than 25 per cent of the bonus opportunity is payable under each element for threshold performance.
Performance Share Plan	To incentivise long-term value creation, retention of our talent and ensure alignment of Executive Directors' and shareholders' interests.	Awards are granted under the PSP annually at the discretion of the Committee. Performance conditions will be based on an equal split of two different financial measures, EPS and ROCE (for discrete parts of an award). Targets will be set for each metric which reflect the strategic plan and business outlook over the respective performance period. The mix may alter for future awards and/or different metrics, such as TSR, may be used. Performance will be measured over a three-year period with an additional mandatory holding period of two years for the vested shares (net of tax). Recovery and withholding provisions allow the Company to recoup vested Performance Share awards within three years in the event of misstatement of performance, error or misconduct, where this has led to an overpayment in the view of the Committee. There is a flexible mechanism which allows the Company to withhold outstanding deferred or future remuneration, or recover the overpayment direct from the individual concerned.	90 per cent of base salary for Chief Executive and 70 per cent of base salary for other Executive Directors. 120 per cent of base salary in exceptional circumstances. Threshold vesting at 25 per cent of the maximum.

Element	Purpose and strategy	Operation	Maximum opportunity
Saving Related Share Option Scheme (SAYE)	To encourage employees at all levels within the Company to understand better and so participate in the growth in value of the Company.	No performance conditions have been attached to options granted pursuant to the Company's SAYE Scheme, which is available for all employees. The rules of that scheme require that all options granted must be on the same terms.	Executives may enter into a contract to save up to the maximum allowed under HMRC guidelines.
Share retention guidelines	To further align the interests of Executive Directors to those of shareholders.	The Chief Executive is required to build up a shareholding of 150 per cent of base salary within five years of appointment. Other Executive Directors are required to build up a shareholding of 100 per cent of their respective base salaries within a five-year period. This is achieved through vested awards granted via the PSP and deferred bonus shares.	n/a

Executive Share Option Scheme
The Committee is responsible for overseeing the operation of all the share-based incentives deployed in the Company. The 2014 Company Share Option Plan and the 2014 Executive Share Option Scheme were approved by shareholders at the 2014 AGM.

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

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

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

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

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

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

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

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

Directors' Remuneration Report
continued

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

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

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

Non-Executive Director	Original date of appointment
Ian Durant	5 October 2011
Allison Kirkby	30 January 2013
Helena Ganczakowski	2 January 2014
Peter McPhillips	10 March 2014
Sandra Turner	1 May 2014

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

Difference in remuneration policy across the Group

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

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

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

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

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

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

Policy on recruitment remuneration

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

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

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

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

Service contracts and policy on cessation

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

Provision	Detailed terms
Remuneration	– salary, pension and benefits; – company car or cash allowance; – private medical health care for the Director; – permanent health insurance; – participation in annual bonus and profit share (subject to scheme rules); – participation in long-term incentive schemes or similar arrangements (subject to scheme rules); and – life assurance.
Notice period	– Chief Executive's contract is terminable on 12 months' notice served by either the Company or the Director; – other Executive Directors' service contracts are terminable on 12 months' notice served by the Company or by six months' notice served by the Director; and – any future Executive Directors' service contracts will be terminable on 12 months' notice served by either party.

Termination payment	– payment in lieu of notice equal to any unexpired notice of termination given by either party; and
	– payment in lieu shall not include:
	  – any bonus payment;
	  – any payment in respect of benefits which the Director would have been entitled to receive; and
	  – any payment in respect of any holiday entitlement that would have accrued during the period for which the payment in lieu is made.
	
	Details of the circumstances in which the Committee has the ability to exercise discretion with regards to termination payments are set out below.

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

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

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

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

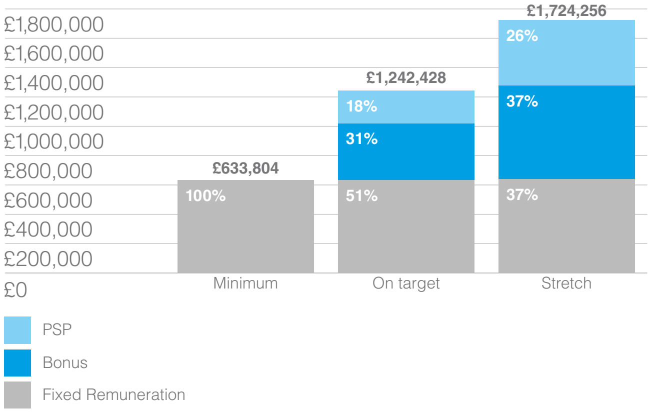
Director	Date of contract
Roger Whiteside	4 February 2013
Raymond Reynolds	18 December 2006
Richard Hutton	7 April 2006

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

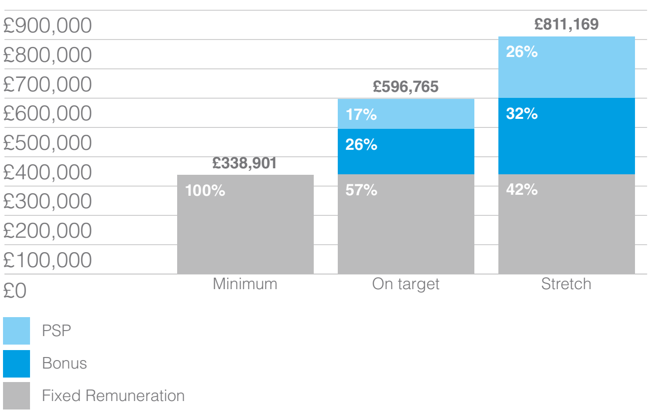
Directors' Remuneration Report
continued

Expected value of the proposed annual remuneration package for Executive Directors
The following charts indicate the level of remuneration payable to Executive Directors in 2015 based on policy at 'minimum' remuneration, remuneration in line with 'on target' Company performance and the maximum remuneration available ('Stretch').

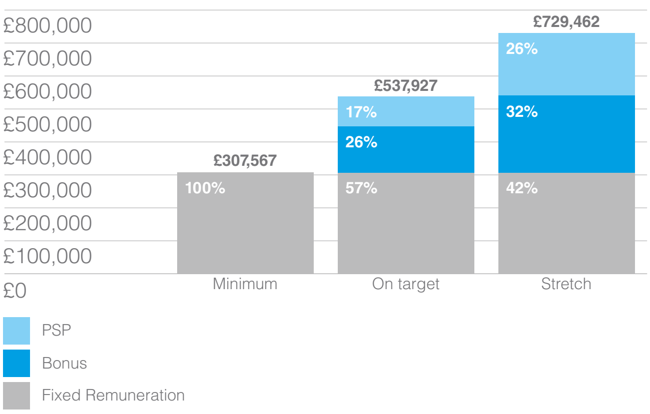
Chief Executive – Roger Whiteside



Finance Director – Richard Hutton



Retail Director – Raymond Reynolds



Assumptions used in the charts
Minimum remuneration assumes no award is earned under the annual bonus plan and no vesting is achieved under the PSP.
On target remuneration assumes 60 per cent of the maximum is earned under the annual bonus plan and 50 per cent vesting is achieved under the PSP.
Maximum remuneration assumes full vesting under the annual bonus plan and PSP.
Base salary levels as at 1 January 2015.
The value of taxable benefits is based on the cost of supplying those benefits (as disclosed) for the 53 weeks ended 3 January 2015.
Share price movement and dividend accrual have been excluded.

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

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

Details of votes cast for and against the resolution to approve last year's Remuneration Report during the year are provided in the Annual Report on Remuneration.

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

Annual Report on Remuneration
Implementation of our policy in 2015
The section below summarises the implementation of our Remuneration Policy for 2015.

Base salaries
The annual base salaries for the Executive Directors are:

Director	Salary as at 1 January 2014	Salary as at 1 January 2015	% Increase
Roger Whiteside	£495,300	£507,187	2.4%
Richard Hutton	£282,944	£289,734	2.4%
Raymond Reynolds	£252,472	£258,531	2.4%

Pension contribution
The pension contribution rates are:

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

Annual bonus
For 2015 the performance conditions will provide a strong link between bonus payments and our business strategy.

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

The strategic objectives for each bonus cycle will be based on measures which will provide a strong link to future value creation. For the 2015 bonus the two strategic objectives, relating to 30 per cent of the bonus opportunity, will be:

(i) 10 per cent based on the successful execution of the 2015 shop refit programme – measured by refit cash return on investment; and
(ii) 20 per cent based on cost savings achieved through combined operational efficiencies and the process and systems change project.

Sliding scales will be set where possible.

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

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

Directors' Remuneration Report
continued

2015 PSP Award

Performance conditions will be based on an equal split of two different financial measures, EPS and ROCE (for discrete parts of an award). Targets have been set for each metric which reflect the strategic plan and business outlook over the performance period. Both the EPS and ROCE ranges have been increased for 2015 to ensure that they remain appropriately stretching, without encouraging undue risk taking.*

For 2015 awards the Committee has considered the Company's business plan and the target ranges will be as follows:

The EPS performance condition will require average annual growth of RPI +1 per cent to +7 per cent over three years from the 2014 financial year end.

The ROCE condition will require average annual ROCE over the three-year performance period (2015, 2016 and 2017) to be in the range 19.0 per cent to 21.5 per cent.

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

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

* EPS and ROCE are measured excluding exceptional items.

Non-Executive Directors' fees

The Remuneration Committee has reviewed the fee level for the Chairman, as planned following his appointment. Following this review the Chairman's fee for 2015 has been increased from £131,405 to £155,000. This is considered to be broadly a mid-market level of fee and recognises the strong performance of the business and the Chairman's strong contribution since joining.

The Non-Executive Directors are paid an annual base fee which is currently £41,231 and additional responsibility fees of £6,130 for the role of Senior Independent Director (SID) or for chairing a Board Committee. Where the SID role is combined with the role of chairing a Committee then only one fee of £47,361 will be paid.

Details of the fees being paid to Non-Executive Directors in 2015 are set out below:

Ian Durant	£155,000	Chairman
Allison Kirkby	£47,361	Chair of the Audit Committee
Helena Ganczakowski	£41,231	Non-Executive Director
Peter McPhillips	£41,231	Non-Executive Director
Sandra Turner	£47,361	SID & Chair of the Remuneration Committee

Remuneration payable for 2014 for each Executive Director (Audited)

The following table presents the remuneration payable for 2014 (showing the equivalent figures for 2013) for the Executive Directors.

	Salary £	Pension contribution £	Taxable benefits £	Annual incentives (inc profit share) £	Long-term incentives £	Total remuneration £
Roger Whiteside[1]						
2014	495,300	111,442[3]	12,381	619,125	–	1,238,248
2013	460,109[2]	100,090[3]	11,297	395,819[4]	–	967,315
Richard Hutton						
2014	282,944	52,508[3]	11,491	254,650	–	601,593
2013	278,488	52,913	11,002	50,128	–	392,531
Raymond Reynolds						
2014	252,472	31,060[3]	12,433	227,225	–	523,190
2013	248,496	30,571[3]	12,716	44,729	–	336,512

1 Appointed as Chief Executive on 4 February 2013.
2 Includes £18,081 home to work travel allowance.
3 Includes salary paid in lieu of pension contributions.
4 Following further review of the legislation regarding preparation of this report it was identified that the value of the shares awarded to Roger Whiteside on appointment should be recognised at the time of grant rather than on exercise as the only condition relates to service. As a result the 2013 figure has been increased by £284,100. Should the service condition not be met the charge would be reversed in this table in a future year.

Fees payable for each Non-Executive Director (Audited)

	Fees £
Ian Durant[1]	
2014	131,405
2013	98,175
Julie Baddeley[2]	
2014	15,595
2013	45,523
Iain Ferguson[2]	
2014	16,071
2013	45,523
Allison Kirkby[3]	
2014	46,251
2013	40,866
Helena Ganczakowski[4]	
2014	39,631
2013	–
Peter McPhillips[5]	
2014	32,667
2013	–
Sandra Turner[6]	
2014	30,834
2013	–

1 Chairman from 15 May 2013.
2 Resigned as Non-Executive Director on 1 May 2014.
3 Appointed 30 January 2013 and appointed Chair of Audit Committee 15 May 2013.
4 Appointed 2 January 2014.
5 Appointed 10 March 2014.
6 Appointed 1 May 2014 and appointed SID and Chair of Remuneration Committee.

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

Directors' Remuneration Report
continued

Annual bonus payments to Executive Directors

The table below outlines the bonus payments to Executive Directors in respect of 2014.

Measure	Strategic objective		Weighting	Entry	Target	Stretch	Actual	% of maximum
All Executive Directors								
Profit (£)	Profit before tax (excluding exceptional items)	To deliver profit target	50%	£38.0m	£42.0m	£45.0m	£58.3m	50%
Sales(%)	Like-for-like sales	To deliver target increase	20%	1.0%	1.5%	2.0%	4.5%	20%
Strategic (%)	Refit return on investment	To deliver target percentage	10%	22.5%	25.0%	–	31.1%	10%
Strategic (£)	Efficient operations cost savings	To deliver target savings	10%	£6.3m	£7.9m	–	£9.0m	10%
Strategic (£)	Improvement through change	To deliver target savings	10%	£1.2m	£1.6m	–	£2.7m	10%
Total weighting based on balance scorecard			**100%**					

Bonus achieved for 2014	As % of maximum
Roger Whiteside	100%
Richard Hutton	100%
Raymond Reynolds	100%

Any element of the bonus earned above 50 per cent of the maximum will be paid in shares for the Chief Executive and Executive Directors subject to a two-year holding period. The number of shares will be calculated by dividing 50 per cent of the net bonus by the closing market share value on the date of payment. Full details will be provided in the 2015 Directors' Remuneration Report.

Vested PSP awards

The PSP award granted in 2012 measured EPS performance by reference to the three financial years to 3 January 2015 and TSR performance by reference to the three years from date of grant. The performance targets that were set, together with the performance delivered, are set out in the table below.

Metric	Condition	Threshold Target	Stretch Target	Actual	% Vesting
Earnings per share (50%)	Normalised EPS growth of RPI + 3% p.a. to RPI + 8% p.a. over three financial years.	RPI +3% (12.5% vesting)	RPI +8% (100% vesting)	RPI +1.3%	0%
Total shareholder return (50%)	TSR against a peer group of 24 companies TSR measured over three years with a one month average at the start and end of the performance period.	50th percentile (12.5% vesting)	75th percentile (100% vesting)	50th percentile*	12.5%
				Total vesting	12.5%

* The percentage vesting under the TSR condition is based on an estimate using the average share price during the three-month period from 1 October 2014 to 3 January 2015 of £6.304. This performance element will be formally measured on the third anniversary of grant and the shares may then vest, subject to continued employment. The results of this final measurement will be disclosed in the 2015 Directors' Remuneration Report.

Legacy defined benefit pension scheme (Audited)

The following table sets out the change in each Director's accrued pension in the Company's defined benefit 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 as at 28 December 2013 £	Accrued annual pension entitlement as at 3 January 2015 £	Increase in accrued pension entitlement for the year £	Increase in accrued pension entitlement for the year net of inflation of 1.2% £	Transfer value of increase in accrued pension entitlement for the year £
Richard Hutton	3/6/68	1/1/98	18,522	18,522	–	–	–
Raymond Reynolds	4/11/59	1/12/86	69,535	69,535	–	–	–

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

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

	Cash equivalent transfer value as at 28 December 2013 £	Cash equivalent transfer value as at 3 January 2015 £	Increase in the cash equivalent transfer value since 28 December 2013 £
Richard Hutton	223,821	307,293	–
Raymond Reynolds	1,130,193	1,442,044	–

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.

The main features of the defined benefit scheme are:

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

Performance Share Plan awards made during 2014

Executive	Type of award	Basis of award granted	Share price at date of grant (17 March 2014)	Number of shares over which award was granted	Face value of award	% of face value that would vest at threshold performance	Vesting determined by performance over
Roger Whiteside	nil cost option	90% of salary	£4.9425	90,191	£445,769	25%	Three financial years to 30 December 2017
Richard Hutton	nil cost option	70% of salary	£4.9425	40,072	£198,056	25%	
Raymond Reynolds	nil cost option	70% of salary	£4.9425	35,757	£196,729	25%	

Directors' Remuneration Report
continued

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

	At 28 December 2013 Number	Granted number	Exercised number	Lapsed number	At 3 January 2015 Number	Exercise price	Date of grant	Market price of each share at date of grant	Date from which exercisable	Expiry date	Scheme
Roger Whiteside	113,252	–	–	–	113,252	£nil	Mar 13	£4.735	Mar 16	Mar 23	PSP
	–	90,191	–	–	90,191	£nil	Mar 14	£4.9425	Mar 17	Mar 24	PSP
	–	449	–	–	449	£4.65	Apr 14		Jun 17	Nov 17	SAYE
	113,252	90,640	–	–	203,892						
Richard Hutton	26,750	–	–	–	26,750*	£4.07	Aug 06		Aug 09	Aug 16	Exec
	62,640	–	–	–	62,640*	£3.56	Apr 09		Apr 12	Apr 19	Exec
	35,838	–	–	35,838	–	£nil	Mar 11	£5.190	Mar 14	Mar 21	PSP
	36,334	–	–	–	36,334	£nil	Apr 12	£5.260	Apr 15	Apr 22	PSP
	41,170	–	–	–	41,170	£nil	Mar 13	£4.735	Mar 16	Mar 23	PSP
	–	40,072	–	–	40,072	£nil	Mar 14	£4.9425	Mar 17	Mar 24	PSP
	374	–	374^	–	–	£4.53	Apr 11		Jun 14	Nov 14	SAYE
	423	–	–	–	423	£4.68	Apr 12		Jun 15	Nov 15	SAYE
	400	–	–	–	400	£4.14	Apr 13		Jun 16	Nov 16	SAYE
	–	449	–	–	449	£4.65	Apr 14		Jun 17	Nov 17	SAYE
	203,929	40,521	374	35,838	208,238						
Raymond Reynolds	26,750	–	–	–	26,750*	£4.07	Aug 06		Aug 09	Aug 16	Exec
	62,640	–	–	–	62,640*	£3.56	Apr 09		Apr 12	Apr 19	Exec
	31,979	–	–	31,979	–	£nil	Mar 11	£5.190	Mar 14	Mar 21	PSP
	32,421	–	–	–	32,421	£nil	Apr 12	£5.260	Apr 15	Apr 22	PSP
	36,736	–	–	–	36,736	£nil	Mar 13	£4.735	Mar 16	Mar 23	PSP
	–	35,757	–	–	35,757	£nil	Mar 14	£4.9425	Mar 17	Mar 24	PSP
	374	–	374^	–	–	£4.53	Apr 11		Jun 14	Nov 14	SAYE
	423	–	–	–	423	£4.68	Apr 12		Jun 15	Nov 15	SAYE
	400	–	–	–	400	£4.14	Apr 13		Jun16	Nov 16	SAYE
	–	449	–	–	449	£4.65	Apr 14		Jun 17	Nov 17	SAYE
	191,723	36,206	374	31,979	195,576						

* Performance conditions have been achieved and the shares remain exercisable.
^ The market value on the date of exercise was £5.31 and the resultant gain on exercise was £291.72.

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

The mid-market price of ordinary shares in the Company as at 3 January 2015 was £7.255. The highest and lowest mid-market prices of ordinary shares during the financial year were £7.375 and £4.305 respectively.

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

Details of the shareholdings of each Executive and Non-Executive Director as of 3 January 2015 and their interests in shares are detailed below with the percentage holding calculated using the share price at that date:

Director	Beneficially owned at 3 January 2015	Beneficially owned at 28 December 2013	Outstanding PSP awards	Outstanding deferred bonus awards	Outstanding option awards	% shareholding guideline achieved at 3 January 2015
Roger Whiteside*	72,253	72,253	203,443	–	–	106%
Richard Hutton	55,787	55,413	117,576	–	89,390	143%
Raymond Reynolds	53,224	52,850	104,914	–	89,390	153%
Ian Durant	11,700	11,700	–	–	–	n/a
Allison Kirkby	1,600	600	–	–	–	n/a
Helena Ganczakowski	1,000	–	–	–	–	n/a
Peter McPhillips	–	–	–	–	–	n/a
Sandra Turner	–	–	–	–	–	n/a

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

Exit payments or payments to past Directors (Audited)

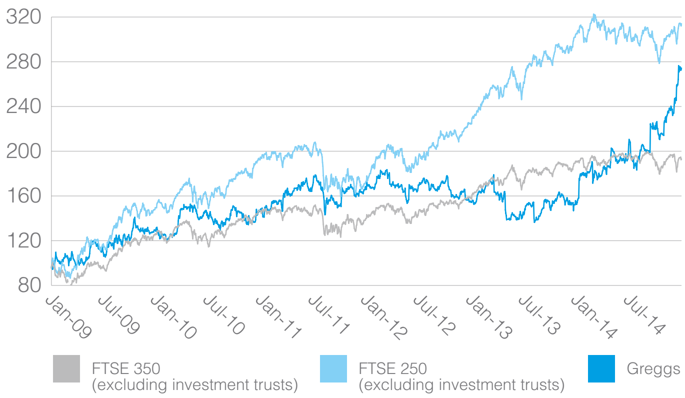
There were no payments to past Directors in the 53 weeks ending 3 January 2015. No payments for compensation or loss of office were paid to, or receivable by, any Director.

External directorships for Executive Directors

There are none currently in place.

Performance graph

The graph below shows a comparison of the total shareholder return for the Company's shares for each of the last six 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 and Greggs plc is a constituent of both indices.

Directors' Remuneration Report
continued

Remuneration outcomes for Chief Executive over last six years

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

	2009	2010	2011	2012	2013	2014
Total remuneration (£'s)	646,313	767,397	707,245	635,030	1,011,381	1,238,248
Bonus (% of max potential)	30%	56.6%	38.6%	18%	20%*	100%
PSP/Options (% max potential)	n/a	n/a	0%	78.3%	n/a	n/a

* This figure includes only the performance related bonus that was achieved in 2013. The impact of the bonus share award as disclosed on page 56 is excluded.

Percentage change in remuneration of Director undertaking role of Chief Executive

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

	% change from 2013 to 2014
Chief Executive (£)	
– salary	2.4%
– benefits	10%
– performance pay	454%[1]
Average per employee (£)	
– salary	1.19%
– benefits[2]	(2.1%)
– performance pay	314%

[1] This figure includes only the performance related bonus that was achieved in 2013. The impact of the bonus share award is excluded.
[2] The average employee benefits figure is based on tax year 2012/13 for 2013 and tax year 2013/14 for 2014.

Relative importance of spend on pay

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

	2014 £m	2013 £m	% increase/ (decrease)
Staff costs	311.3	300.8	3.5%
Dividends	19.6	19.6	0%
Retained profit (excluding exceptional items)	44.3	30.9	43.4%
Tax (excluding exceptional items)	14.0	10.3	35.9%

Composition of the Committee

The following Non-Executive Directors were members of the Committee during 2014:

Member	Date of appointment
Sandra Turner (Chair since appointment)	1 May 2014
Allison Kirkby	30 January 2013
Helena Ganczakowski	2 January 2014
Peter McPhillips	10 March 2014

Julie Baddeley and Iain Ferguson resigned from the Committee when they stepped down from the Board on 1 May 2014.

Remuneration advice
The Chairman and Chief Executive along with Jonathan Jowett (Company Secretary and General Counsel) and Roisin Currie (People Director) are normally invited to attend the Committee meetings in order to provide advice and support to the Committee. During the year New Bridge Street (NBS) supported the Committee. Aon, the parent company of NBS, provided pension valuation services to the Company during the year. NBS was appointed as Independent Advisor to the committee following a tender process in 2013.

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

Fees paid to NBS during the year were £39,000.

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

	Approve the Remuneration Report		Approve the Directors' Remuneration Policy	
	Total number of votes	% of votes cast	Total number of votes	% of votes cast
For	63,296,965	99.88%	62,250,083	97.97%
Against	74,674	0.12%	1,292,495	2.03%
Total votes cast (excluding votes withheld)	63,371,639	100%	63,542,578	100%
Votes withheld	378,033		207,094	
Total votes cast (including votes withheld)	63,749,672		63,749,672	

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

At the AGM of the Company to be held on 30 April 2015, one resolution approving the annual statement and Annual Report on Remuneration will be proposed as an ordinary resolution.

This report was approved by the Board on 4 March 2015.

Signed on behalf of the Board

Sandra Turner
Chair of the Remuneration Committee
4 March 2015

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

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

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

Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company accounts, the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its accounts comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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

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

Responsibility statement of the Directors in respect of the annual financial report
We confirm that to the best of our 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 or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Directors' Report and Strategic Report, which incorporates the Chairman's Statement, the Chief Executive's Report, the Financial Review and the Social Responsibility statement includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

Roger Whiteside
Chief Executive

Richard Hutton
Finance Director

4 March 2015

Independent Auditor's Report to the members of Greggs plc

Opinions and conclusions arising from our audit

1 Our opinion on the accounts is unmodified

We have audited the accounts of Greggs plc for the 53 weeks ended 3 January 2015 set out on pages 68 to 95.
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 3 January 2015 and of the Group's profit for the 53 weeks then ended;
- the Group accounts have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU); and
- the Parent Company accounts have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the accounts have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group accounts, Article 4 of the IAS Regulation.

2 Our assessment of risks of material misstatement

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

Impairment of property, plant and equipment (net charge in year £0.4m, closing net book value £263m)
Refer to page 45 (Audit Committee Report), pages 73 and 75 (accounting policy) and pages 84 to 85 (financial disclosures).

The risk –
- The significant levels of property, plant and equipment held by the Group including assets in over 1,600 shops means that there are many separate cash generating units (i.e. 'shops') that independently expose the Group to a risk that the value of property, plant and equipment balances may not be recoverable in full through either future trade or recoverable value on disposal.
- In addition, following the £4m impairment charge in 2013 and the decision announced in the current year to close the in-store bakeries, countered by a significant improvement in the performance of the Group in 2014, there is also an increased risk of further impairments in some shops whilst previous impairments possibly should be reversed in other shops. This includes the risk that for obsolete assets, e.g. land and buildings which are surplus to requirements, the assumptions over the recoverable amount may have changed over time as intentions change and more information is available.
- Determining the level of impairment and any reversal of impairment involves forecasting and discounting future cash flows and estimation of recoverable amounts which are inherently uncertain.

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

- In respect of the shops which continue to trade we critically assessed and challenged the Group's impairment model. This included consideration of the discounted cash flow forecasts on a shop by shop basis and whether these support the carrying value of the relevant assets as well as if this indicates a reversal of a past impairment is needed. We assessed the cash flow forecasts against the historical performance of those shops and against the Group's budgets. We assessed the appropriateness of the discount rate including benchmarking it against other national retailers. We performed a sensitivity analysis of both discount rates and forecast cash flows and considered the resulting impact on the impairment charge.
- In respect of specific impairments of plant and equipment, we critically assessed the Group's identification of assets that were obsolete and critically assessed whether such assets have any recoverable value or possible further use by the business using our knowledge of the Group and historical experience.
- In respect of owned land and buildings which have been identified as surplus to requirements and which are not being traded from, we considered whether the carrying value of the land and buildings was appropriate with reference to market indicators such as external third party valuations and purchase offers received. This included consideration as to whether assets were impaired or whether previously booked impairments should be reversed.
- We have also considered the adequacy of the Group's disclosures about the degree of estimation involved in determining the amount of impairment and the sensitivity to key assumptions involved.

Provisions (net charge in year £3.87m, provision in balance sheet £6.6m)
Refer to page 45 (Audit Committee Report), pages 74 and 76 (accounting policy) and page 93 (financial disclosures).

Independent Auditor's Report to the members of Greggs plc
continued

The risk –
- The decision, in the prior year, to close shops and accelerate certain shop closures has resulted in an increased risk of onerous leases. Determining the level of onerous lease provisions involves forecasting and discounting future cash flows and estimation of the length of time and cost at which lease arrangements can be exited, both of which are inherently uncertain.
- The work completed during the year to remove the in-store bakeries within relevant stores resulted in an increased requirement for dilapidation provisions. The level of dilapidation provision involves estimation as to the costs anticipated to make good any alterations to properties as required by lease agreements.

Our response –
Our audit procedures in respect of property provisions included, among others:

- In respect of the onerous lease provisions we critically assessed whether provisions identified by the Group met the criteria for recognition as detailed below. We also considered the completeness of provisions for all leases where the unavoidable costs of meeting the lease obligation exceed the economic benefit expected to be received under the lease. This included consideration of shops closed during the year.
- For closed shops we critically assessed the Group's estimate of total costs to exit the lease by challenging key assumptions including the time it would take to exit, the level of incentives to sublease or penalties to landlords to be paid and other costs to exit or sublet a shop such as legal fees or dilapidation costs. We considered the most recent expectation of the relevant local in-house Group property surveyor responsible for each shop, supported by third party evidence including offers made, communications with third party agents, or contracts agreed to surrender or sublease properties post year end. We considered the historical experience of the Group at exiting similar properties and the costs involved in doing so. We also considered the location of each closed shop and the impact this may have on the time and costs expected to exit these leases as well as the possible income from subletting these shops if possible.
- We challenged the Group's assumptions relating to onerous lease provisions for shops still trading. This included consideration of the discounted cash flow forecasts on a shop by shop basis and assessing the cash flow forecasts against the historical performance of those shops and against the Group's budgets. We assessed the appropriateness of the discount rate used in the forecasts, including benchmarking it against other national retailers.
- In respect of the dilapidation provisions we critically assessed whether provisions identified by the Group met the criteria for recognition. We also considered the completeness of provisions including the consideration of shops where there is indication of likely dilapidation costs taking into account historical experience of the Group. We considered the historical experience of the Group in respect of dilapidation costs. We considered specific issues on certain Group properties and critically assessed the impact of these on the provisions made.
- We have also considered the adequacy of the Group's disclosures about the degree of estimation involved in arriving at the provisions and the sensitivity to key assumptions involved.

3 Our application of materiality and an overview of the scope of our audit
The materiality for the accounts as a whole was set at £2.9 million, determined with reference to a benchmark of Group profit before tax, normalised to exclude this year's exceptional charge as disclosed in note 4, of £58.3m, of which it represents 5 per cent.

We report to the Audit Committee any corrected or uncorrected misstatements identified exceeding £145,000, in addition to other identified misstatements that warranted reporting on qualitative grounds.

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

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

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

5 We have nothing to report in respect of the matters on which we are required to report by exception
Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the accounts, a material misstatement of fact, or that is otherwise misleading.

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

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

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company accounts and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

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

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

Scope and responsibilities
As explained more fully in the Directors' Responsibilities Statement set out on page 64, the Directors are responsible for the preparation of the accounts and for being satisfied that they give a true and fair view. A description of the scope of an audit of accounts is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2014a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Mick Thompson
(Senior Statutory Auditor)

for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants
Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX

4 March 2015

Consolidated income statement
for the 53 weeks ended 3 January 2015
(2013: 52 weeks ended 28 December 2013)

	Note	2014 Excluding exceptional items £'000	2014 Exceptional items (see Note 4) £'000	2014 Total £'000	2013 Excluding exceptional items £'000	2013 Exceptional items (see Note 4) £'000	2013 Total £'000
Revenue	1	**803,961**	**–**	**803,961**	762,379	–	762,379
Cost of sales		**(309,865)**	**(5,932)**	**(315,797)**	(305,914)	(1,684)	(307,598)
Gross profit		**494,096**	**(5,932)**	**488,164**	456,465	(1,684)	454,781
Distribution and selling costs		**(395,709)**	**(282)**	**(395,991)**	(378,047)	(6,453)	(384,500)
Administrative expenses		**(40,303)**	**(2,302)**	**(42,605)**	(36,923)	–	(36,923)
Operating profit		**58,084**	**(8,516)**	**49,568**	41,495	(8,137)	33,358
Finance income/(expense)	6	**175**	**–**	**175**	(206)	–	(206)
Profit before tax	3-6	**58,259**	**(8,516)**	**49,743**	41,289	(8,137)	33,152
Income tax	8	**(13,997)**	**1,810**	**(12,187)**	(10,346)	1,383	(8,963)
Profit for the financial year attributable to equity holders of the Parent		**44,262**	**(6,706)**	**37,556**	30,943	(6,754)	24,189
Basic earnings per share	9	**44.0p**	**(6.6p)**	**37.4p**	30.8p	(6.7p)	24.1p
Diluted earnings per share	9	**43.4p**	**(6.6p)**	**36.8p**	30.6p	(6.7p)	23.9p

Consolidated statement of comprehensive income
for the 53 weeks ended 3 January 2015
(2013: 52 weeks ended 28 December 2013)

	Note	2014 £'000	2013 £'000
Profit for the financial year		**37,556**	24,189
Other comprehensive income			
Items that will not be recycled to profit and loss:			
Re-measurement (losses)/gains on defined benefit pension plans	21	**(8,575)**	4,293
Tax on re-measurement (losses)/gains on defined benefit pension plans	8	**1,715**	(859)
Other comprehensive income for the financial year, net of income tax		**(6,860)**	3,434
Total comprehensive income for the financial year		**30,696**	27,623

Balance sheet
at 3 January 2015
(2013: 28 December 2013)

	Note	Group 2014 £'000	Group 2013 £'000	Parent Company 2014 £'000	Parent Company 2013 £'000
ASSETS					
Non-current assets					
Intangible assets	10	**4,721**	1,012	**4,721**	1,012
Property, plant and equipment	11	**262,719**	267,797	**263,312**	268,390
Investments	12	**–**	–	**4,987**	4,987
Defined benefit pension asset	21	**–**	55	**–**	55
		267,440	268,864	**273,020**	274,444
Current assets					
Inventories	13	**15,290**	15,405	**15,290**	15,405
Trade and other receivables	14	**26,091**	25,012	**26,091**	25,012
Assets held for sale	15	**6,500**	–	**6,500**	–
Cash and cash equivalents	16	**43,615**	21,572	**43,615**	21,572
Other investments	12	**10,000**	3,000	**10,000**	3,000
		101,496	64,989	**101,496**	64,989
Total assets		**368,936**	333,853	**374,516**	339,433
LIABILITIES					
Current liabilities					
Trade and other payables	17	**(89,954)**	(72,203)	**(97,761)**	(80,010)
Current tax liabilities	18	**(8,056)**	(5,564)	**(8,056)**	(5,564)
Provisions	22	**(4,109)**	(2,949)	**(4,109)**	(2,949)
		(102,119)	(80,716)	**(109,926)**	(88,523)
Non-current liabilities					
Other payables	19	**(6,555)**	(7,040)	**(6,555)**	(7,040)
Defined benefit pension liability	21	**(8,518)**	–	**(8,518)**	–
Deferred tax liability	20	**(2,539)**	(7,508)	**(2,012)**	(6,981)
Long-term provisions	22	**(2,502)**	(2,412)	**(2,502)**	(2,412)
		(20,114)	(16,960)	**(19,587)**	(16,433)
Total liabilities		**(122,233)**	(97,676)	**(129,513)**	(104,956)
Net assets		**246,703**	236,177	**245,003**	234,477
EQUITY					
Capital and reserves					
Issued capital	23	**2,023**	2,023	**2,023**	2,023
Share premium account		**13,533**	13,533	**13,533**	13,533
Capital redemption reserve	23	**416**	416	**416**	416
Retained earnings		**230,731**	220,205	**229,031**	218,505
Total equity attributable to equity holders of the Parent		**246,703**	236,177	**245,003**	234,477

The accounts on pages 68 to 95 were approved by the Board of Directors on 4 March 2015 and were signed on its behalf by:

Roger Whiteside
Richard Hutton

Company Registered Number 502851

Statements of changes in equity
for the 53 weeks ended 3 January 2015
(2013: 52 weeks ended 28 December 2013)

Group
52 weeks ended 28 December 2013

	Note	Issued capital £'000	Share premium £'000	Capital redemption reserve £'000	Retained earnings £'000	Total £'000
		Attributable to equity holders of the Company				
Balance at 30 December 2012		2,023	13,533	416	210,818	226,790
Total comprehensive income for the year						
Profit for the financial year		–	–	–	24,189	24,189
Other comprehensive income		–	–	–	3,434	3,434
Total comprehensive income for the year		–	–	–	27,623	27,623
Transactions with owners, recorded directly in equity						
Sale of own shares		–	–	–	860	860
Share-based payment transactions	21	–	–	–	592	592
Dividends to equity holders	23	–	–	–	(19,582)	(19,582)
Tax items taken directly to reserves	8	–	–	–	(106)	(106)
Total transactions with owners		–	–	–	(18,236)	(18,236)
Balance at 28 December 2013		2,023	13,533	416	220,205	236,177

53 weeks ended 3 January 2015

	Note	Issued capital £'000	Share premium £'000	Capital redemption reserve £'000	Retained earnings £'000	Total £'000
		Attributable to equity holders of the Company				
Balance at 29 December 2013		**2,023**	**13,533**	**416**	**220,205**	**236,177**
Total comprehensive income for the year						
Profit for the financial year		**–**	**–**	**–**	**37,556**	**37,556**
Other comprehensive income		**–**	**–**	**–**	**(6,860)**	**(6,860)**
Total comprehensive income for the year		**–**	**–**	**–**	**30,696**	**30,696**
Transactions with owners, recorded directly in equity						
Sale of own shares		**–**	**–**	**–**	**5,257**	**5,257**
Purchase of own shares		**–**	**–**	**–**	**(7,873)**	**(7,873)**
Share-based payment transactions	21	**–**	**–**	**–**	**529**	**529**
Dividends to equity holders	23	**–**	**–**	**–**	**(19,570)**	**(19,570)**
Tax items taken directly to reserves	8	**–**	**–**	**–**	**1,487**	**1,487**
Total transactions with owners		**–**	**–**	**–**	**(20,170)**	**(20,170)**
Balance at 3 January 2015		**2,023**	**13,533**	**416**	**230,731**	**246,703**

Statements of changes in equity
for the 53 weeks ended 3 January 2015
(2013: 52 weeks ended 28 December 2013) continued

Parent Company
52 weeks ended 28 December 2013

	Note	Attributable to equity holders of the Company				
		Issued capital £'000	Share premium £'000	Capital redemption reserve £'000	Retained earnings £'000	Total £'000
Balance at 30 December 2012		2,023	13,533	416	209,224	225,196
Total comprehensive income for the year						
Profit for the financial year	7	–	–	–	24,083	24,083
Other comprehensive income		–	–	–	3,434	3,434
Total comprehensive income for the year		–	–	–	27,517	27,517
Transactions with owners, recorded directly in equity						
Sale of own shares		–	–	–	860	860
Share-based payment transactions	21	–	–	–	592	592
Dividends to equity holders	23	–	–	–	(19,582)	(19,582)
Tax items taken directly to reserves	8	–	–	–	(106)	(106)
Total transactions with owners		–	–	–	(18,236)	(18,236)
Balance at 28 December 2013		2,023	13,533	416	218,505	234,477

53 weeks ended 3 January 2015

	Note	Attributable to equity holders of the Company				
		Issued capital £'000	Share premium £'000	Capital redemption reserve £'000	Retained earnings £'000	Total £'000
Balance at 29 December 2013		**2,023**	**13,533**	**416**	**218,505**	**234,477**
Total comprehensive income for the year						
Profit for the financial year	7	**–**	**–**	**–**	**37,556**	**37,556**
Other comprehensive income		**–**	**–**	**–**	**(6,860)**	**(6,860)**
Total comprehensive income for the year		**–**	**–**	**–**	**30,696**	**30,696**
Transactions with owners, recorded directly in equity						
Sale of own shares		**–**	**–**	**–**	**5,257**	**5,257**
Purchase of own shares		**–**	**–**	**–**	**(7,873)**	**(7,873)**
Share-based payment transactions	21	**–**	**–**	**–**	**529**	**529**
Dividends to equity holders	23	**–**	**–**	**–**	**(19,570)**	**(19,570)**
Tax items taken directly to reserves	8	**–**	**–**	**–**	**1,487**	**1,487**
Total transactions with owners		**–**	**–**	**–**	**(20,170)**	**(20,170)**
Balance at 3 January 2015		**2,023**	**13,533**	**416**	**229,031**	**245,003**

Statements of cashflows

for the 53 weeks ended 3 January 2015
(2013: 52 weeks ended 28 December 2013)

	Note	Group 2014 £'000	Group 2013 £'000	Parent Company 2014 £'000	Parent Company 2013 £'000
Operating activities					
Cash generated from operations (see below)		**108,552**	82,493	**108,552**	82,493
Income tax paid		**(11,462)**	(13,157)	**(11,462)**	(13,157)
Net cash inflow from operating activities		**97,090**	69,336	**97,090**	69,336
Investing activities					
Acquisition of property, plant and equipment		**(44,456)**	(47,808)	**(44,456)**	(47,808)
Acquisition of intangible assets		**(3,809)**	(785)	**(3,809)**	(785)
Proceeds from sale of property, plant and equipment		**2,231**	3,194	**2,231**	3,194
Interest received/(paid)	6	**173**	(24)	**173**	(24)
Acquisition of other investments	12	**(7,000)**	(3,000)	**(7,000)**	(3,000)
Net cash outflow from investing activities		**(52,861)**	(48,423)	**(52,861)**	(48,423)
Financing activities					
Sale of own shares		**5,257**	860	**5,257**	860
Purchase of own shares		**(7,873)**	–	**(7,873)**	–
Dividends paid	23	**(19,570)**	(19,582)	**(19,570)**	(19,582)
Net cash outflow from financing activities		**(22,186)**	(18,722)	**(22,186)**	(18,722)
Net increase in cash and cash equivalents		**22,043**	2,191	**22,043**	2,191
Cash and cash equivalents at the start of the year	16	**21,572**	19,381	**21,572**	19,381
Cash and cash equivalents at the end of the year	16	**43,615**	21,572	**43,615**	21,572

Cash flow statement – cash generated from operations

	Note	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Profit for the financial year		**37,556**	24,189	**37,556**	24,083
Amortisation	10	**100**	161	**100**	161
Depreciation	11	**37,463**	33,225	**37,463**	33,225
Impairment	11	**414**	5,252	**414**	5,252
Loss on sale of property, plant and equipment		**3,576**	1,390	**3,576**	1,390
Release of government grants		**(473)**	(470)	**(473)**	(470)
Share-based payment expenses	21	**529**	592	**529**	592
Finance (income)/expense	6	**(175)**	206	**(175)**	206
Income tax expense	8	**12,187**	8,963	**12,187**	9,069
Decrease in inventories		**115**	2,253	**115**	2,253
(Increase)/decrease in receivables		**(1,079)**	1,905	**(1,079)**	1,905
Increase in payables		**17,089**	1,220	**17,089**	1,220
Increase in provisions		**1,250**	3,607	**1,250**	3,607
Cash from operating activities		**108,552**	82,493	**108,552**	82,493

Notes to the consolidated accounts

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 4 March 2015.

(a) Statement of compliance

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

(b) Basis of preparation

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

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Directors' Report and Strategic Report on pages 2 to 63. The financial position of the Group, its cash flows and liquidity position are described in the Financial Review on pages 20 and 21. In addition Note 2 to the accounts includes: the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The Directors have reviewed the Company's operational and investment plans for the foreseeable future along with the principal risks and uncertainties that could affect these plans or threaten its liquidity. The key factors likely to affect future performance and the Company's exposure to risks are set out on pages 24 to 26 of the Strategic Report. In addition the Financial Review on pages 20 and 21 sets out the Company's net cash position and continued strong cash generation.

After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

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

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

- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities
- Transition guidance: Amendments to IFRS 10, IFRS 11 and IFRS 12
- Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32
- Recoverable amount disclosures for non-financial assets – Amendments to IAS 36

The adoption of the above has not had a significant impact on the Group's profit for the year or equity. The other standards and interpretations that are applicable for the first time in the Group's accounts for the year have no effect on these accounts.

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:

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 estimated based on value in use calculations which include management's estimates of future cash flows generated by the assets and an appropriate discount rate. Consideration is also given to whether the impairment assessments made in prior years remain appropriate based on the latest expectations in respect of value in use and recoverable value. Where it is concluded that the impairment has reduced a reversal of the impairment is recorded. The sensitivities for growth rate, discount rate and lease term have been considered and are deemed not significant. For instance, a 2 per cent change in the growth rate would result in a £50,000 change in the impairment charge.

Notes to the consolidated accounts
(continued)

Significant accounting policies (continued)

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

Post retirement benefits
The determination of the defined benefit obligation of the Group's defined benefit pension scheme depends on the selection of certain assumptions including the discount rate, inflation rate and mortality rates. Differences arising from actual experience or future changes in assumptions will be reflected in future years. The key assumptions made for 2014 are given in Note 21.

(c) Basis of consolidation
The consolidated accounts include the results of Greggs plc and its subsidiary undertakings for the 53 weeks ended 3 January 2015. The comparative period is the 52 weeks ended 28 December 2013.

(i) Subsidiaries
Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The accounts of subsidiaries are included in the consolidated accounts from the date on which control commences until the date on which control ceases.

(ii) Transactions eliminated on consolidation
Intragroup balances, and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated accounts.

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

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

(f) Intangible assets
The Group's only intangible assets relate to software and the costs of its implementation 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.

Assets in the course of development are re-categorised and amortisation commences when the assets are available for use.

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

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

(iii) Depreciation

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

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

Freehold land is not depreciated.

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

(iv) Assets in the course of construction

These assets are re-categorised and depreciation 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.

(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. Once classified as held for sale assets are no longer depreciated or amortised.

(m) Share capital

(i) Re-purchase of share capital

When share capital recognised as equity is re-purchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from equity. Re-purchased 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.

Notes to the consolidated accounts
(continued)

Significant accounting policies (continued)

(o) Employee benefits

(i) Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be measured reliably.

(ii) Defined contribution plans

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

(iii) Defined benefit plans

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

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

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

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

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

(iv) 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.

(v) Termination benefits

Termination benefits are expensed at the earlier of the date at which the Group can no longer withdraw the offer of these benefits and the date at which the Group recognises costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the reporting date they are discounted.

(p) Provisions

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

(i) Restructuring

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

(ii) Onerous leases

Provisions for onerous leases are recognised when the Group believes that the unavoidable costs of meeting the lease obligations exceed the economic benefits expected to be received under the lease. Before a provision is established the Group recognises any impairment loss on the associated assets.

(iii) Dilapidations

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

(q) Revenue

(i) Retail sales

Revenue from the sale of goods is recognised as income on receipt of cash or card payment. Revenue is measured net of discounts, promotions and value added taxation.

(ii) Franchise sales

Franchise sales are recognised when goods are dispatched to franchisees. Any additional franchise fee income relating to franchise sales is recognised on an accruals basis in accordance with the substance of the relevant agreement.

(iii) Wholesale sales

Wholesale sales are recognised when goods are dispatched to customers.

(iv) Loyalty programme/gift cards

Amounts received for gift cards or as part of the loyalty programme are deferred. They are recognised as revenue when the Group has fulfilled its obligation to supply products under the terms of the programme or when it is no longer probable that these amounts will be redeemed. No adjustment is made to revenue to reflect the fair value of the free items provided under the loyalty scheme as these would be immaterial to the accounts. The costs of these free items are expensed as the products are provided to the customer.

(r) Government grants

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

(s) 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

Interest income or expense is recognised using the effective interest method.

(u) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

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

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

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

(v) Research and development

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

(w) IFRSs available for early adoption not yet applied

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

- Defined Benefit Plans: Employee Contributions – Amendments to IAS 19 for accounting periods commencing on or after 1 July 2014 (endorsed for 1 February 2015)
- Annual Improvements to IFRSs – 2010-2012 Cycle for accounting periods commencing on or after 1 July 2014 (endorsed for 1 February 2015)
- Annual Improvements to IFRSs – 2011-2013 Cycle for accounting periods commencing on or after 1 July 2014 (endorsed for 1 January 2015)

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

Notes to the consolidated accounts
(continued)

1. Segmental analysis
The Board is considered to be the 'chief operating decision maker' of the Group in the context of the IFRS 8 definition. The information which is reviewed by the Board for the purposes of assessing financial performance and allocating resources comprises the income statement for the Company as a whole.

The Group has identified one operating segment – food-on-the-go retailing which includes the sale of products through our own shops and franchised operations. The Group conducts a small amount of wholesale business but this is not significant in the context of IFRS 8 and it is not anticipated that this will become a 'Reportable Segment'.

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

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

Geographical areas – all results arise in the UK.

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

2. Financial risk management
Credit risk
Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

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

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

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

The Group operates with net current liabilities and is therefore reliant on the continued strong performance of the retail portfolio to meet its short-term liabilities. This is a well established and proven business model. Any increase in short-term liquidity risk can be mitigated by reducing capital expenditure. The Group had significant cash resources at the year end.

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

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

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

Interest rate
The Group has low exposure to interest rate risk. Interest only arises on its bank deposits and overdrafts and the defined pension scheme liability. Net financial income in the year was £175,000 (2013: expense of £206,000).

Equity prices
The Group has no equity investments other than its subsidiaries. As disclosed in Note 21 the Group's defined benefit pension scheme has investments in equity-related funds.

Capital management

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

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

Financial instruments

Group and Parent Company

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

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

Financial assets and liabilities

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

Other than trade and other payables, the Group had no financial liabilities within the scope of IAS 39 as at 3 January 2015 (2013: £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):

	2014 £'000	2013 £'000
Amortisation of intangible assets	**100**	161
Depreciation on owned property, plant and equipment	**37,463**	33,225
Loss on disposal of fixed assets	**3,576**	1,390
Release of government grants	**(473)**	(470)
Payments under operating leases – property rents	**48,451**	49,683
Research and development expenditure	**465**	425
Auditor's remuneration:		
Audit of these accounts	**140**	149
Other services pursuant to such legislation	**–**	3
Audit of pension schemes' accounts	**7**	6
Other services – tax compliance	**21**	35
Other services – tax advisory	**25**	9
All other services	**5**	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.

Notes to the consolidated accounts
(continued)

4. Exceptional items

	2014 £'000	2013 £'000
Cost of sales		
Supply sites – asset impairment	–	1,221
– loss on disposal of assets	–	463
Closure of in-store bakeries – redundancy and disruption costs	3,190	–
– loss on disposal of assets	664	–
– dilapidations	2,078	–
	5,932	1,684
Distribution and selling		
Shop asset impairment (reversal)/charge	(149)	1,790
Loss on disposal of assets	–	1,529
Onerous leases	431	3,134
	282	6,453
Administration expenses		
Restructuring of support functions	2,302	–
Total exceptional items	8,516	8,137

Supply sites
The impairment arose following the decision that additional capacity in the supply chain was not required in the medium term.

Closure of in-store bakeries
The charge arises from the decision to consolidate the Group's in-store bakeries into its regional bakery network and comprises of redundancy costs, disruption costs arising on the transfer of production from stores to regional bakeries, asset write-offs and the costs of making good the shops (dilapidations) as bakery equipment is removed.

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

Restructuring of support functions
The charge relates to the redundancy costs incurred in respect of restructuring within the support functions.

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

	2014 Number	2013 Number
Management	698	720
Administration	386	424
Production	3,143	3,243
Shop	15,136	15,817
	19,363	20,204

The aggregate personnel costs of these persons were as follows:

	Note	2014 £'000	2013 £'000
Wages and salaries		281,336	270,888
Compulsory social security contributions		19,578	20,095
Pension costs – defined contribution plans	21	9,901	9,030
Pension costs – defined benefit plans	21	–	182
Equity settled transactions	21	529	592
		311,344	300,787

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

	2014 £'000	2013 £'000
Cost of sales	**1,657**	1,372
Distribution and selling costs	**3,952**	3,271
Administrative expenses	**765**	633
	6,374	5,276

For the purposes of IAS 24 'Related Party Disclosures', key management personnel comprises the Directors and their remuneration comprised:

	2014 £'000	2013 £'000
Salaries and fees	**1,343**	1,360
Taxable benefits	**36**	39
Annual bonus	**1,101**	207
Post employment benefits	**195**	201
Share-based payments	**304**	241
	2,979	2,048

6. Finance income

	2014 £'000	2013 £'000
Interest income on cash balances	**183**	69
Foreign exchange loss	**(10)**	(93)
Net interest related to defined benefit obligation	**2**	(182)
	175	(206)

7. Profit attributable to Greggs plc

Of the Group profit for the year, £37,556,000 (2013: £24,083,000) is dealt with in the accounts of the Parent Company. The Company has taken advantage of the exemption permitted by section 408 of the Companies Act 2006 from presenting its own income statement.

8. Income tax expense

Recognised in the income statement

	2014 Excluding exceptional items £'000	2014 Exceptional items £'000	2014 Total £'000	2013 Excluding exceptional items £'000	2013 Exceptional items £'000	2013 Total £'000
Current tax expense						
Current year	**15,776**	**(1,534)**	**14,242**	12,463	(670)	11,793
Adjustment for prior years	**(229)**	**–**	**(229)**	(170)	–	(170)
	15,547	**(1,534)**	**14,013**	12,293	(670)	11,623
Deferred tax (credit)/expense						
Origination and reversal of temporary differences	**(1,471)**	**(276)**	**(1,747)**	(886)	(713)	(1,599)
Reduction in tax rate	**–**	**–**	**–**	(1,200)	–	(1,200)
Adjustment for prior years	**(79)**	**–**	**(79)**	139	–	139
	(1,550)	**(276)**	**(1,826)**	(1,947)	(713)	(2,660)
Total income tax expense in income statement	**13,997**	**(1,810)**	**12,187**	10,346	(1,383)	8,963

Notes to the consolidated accounts
(continued)

8. Income tax expense (continued)

Reconciliation of effective tax rate

	2014	2014 £'000	2013	2013 £'000
Profit before tax		49,743		33,152
Income tax using the domestic corporation tax rate	21.5%	10,695	23.25%	7,708
Non-deductible expenses	1.0%	521	2.0%	673
Non-qualifying depreciation	2.5%	1,245	3.5%	1,169
Loss/(profit) on disposal of non-qualifying assets	0.1%	34	(0.1%)	(42)
Impairment of non-qualifying assets	–	–	1.3%	426
Impact of reduction in deferred tax rate	–	–	(2.8%)	(940)
Adjustment for prior years	(0.6%)	(308)	(0.1%)	(31)
Total income tax expense in income statement	24.5%	12,187	27.0%	8,963

Reconciliation of effective tax rate (underlying excluding exceptional items)

	2014	2014 £'000	2013	2013 £'000
Profit before tax		58,259		41,289
Income tax using the domestic corporation tax rate	21.5%	12,526	23.25%	9,600
Non-deductible expenses	0.8%	500	1.6%	673
Non-qualifying depreciation	2.1%	1,245	2.8%	1,169
Loss/(profit) on disposal of non-qualifying assets	0.1%	34	(0.1%)	(42)
Impairment of non-qualifying assets	–	–	0.1%	41
Impact of reduction in deferred tax rate	–	–	(2.6%)	(1,064)
Adjustment for prior years	(0.5%)	(308)	(0.1%)	(31)
Total income tax expense in income statement	24.0%	13,997	25.0%	10,346

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

Tax recognised in other comprehensive income or directly in equity

	2014 Current tax £'000	2014 Deferred tax £'000	2014 Total £'000	2013 Total £'000
Debit/(credit):				
Relating to equity-settled transactions	(59)	(1,428)	(1,487)	106
Relating to defined benefit plans – re-measurement gains	–	(1,715)	(1,715)	859
	(59)	(3,143)	(3,202)	965

9. Earnings per share

Basic earnings per share

Basic earnings per share for the 53 weeks ended 3 January 2015 is calculated by dividing profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the 53 weeks ended 3 January 2015 as calculated below.

Diluted earnings per share

Diluted earnings per share for the 53 weeks ended 3 January 2015 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 53 weeks ended 3 January 2015 as calculated below.

Profit attributable to ordinary shareholders

	2014 Excluding exceptional items £'000	2014 Exceptional items £'000	2014 Total £'000	2013 Excluding exceptional items £'000	2013 Exceptional items £'000	2013 Total £'000
Profit for the financial year attributable to equity holders of the Parent	**44,262**	**(6,706)**	**37,556**	30,943	(6,754)	24,189
Basic earnings per share	**44.0p**	**(6.6p)**	**37.4p**	30.8p	(6.7p)	24.1p
Diluted earnings per share	**43.4p**	**(6.6p)**	**36.8p**	30.6p	(6.7p)	23.9p

Weighted average number of ordinary shares

	2014 Number	2013 Number
Issued ordinary shares at start of year	**101,155,901**	101,155,901
Effect of own shares held	**(638,815)**	(762,222)
Weighted average number of ordinary shares during the year	**100,517,086**	100,393,679
Effect of share options on issue	**1,517,722**	912,387
Weighted average number of ordinary shares (diluted) during the year	**102,034,808**	101,306,066

10. Intangible assets

Group and Parent Company

	Software £'000	Assets under development £'000	Total £'000
Cost			
Balance at 30 December 2012	686	–	686
Additions	1,029	–	1,029
Balance at 28 December 2013	1,715	–	1,715
Balance at 29 December 2013	**1,715**	**–**	**1,715**
Additions	**817**	**2,992**	**3,809**
Balance at 3 January 2015	**2,532**	**2,992**	**5,524**

	Software £'000	Assets under development £'000	Total £'000
Amortisation			
Balance at 30 December 2012	542	–	542
Amortisation charge for the year	161	–	161
Balance at 28 December 2013	703	–	703
Balance at 29 December 2013	**703**	**–**	**703**
Amortisation charge for the year	**100**	**–**	**100**
Balance at 3 January 2015	**803**	**–**	**803**
Carrying amounts			
At 30 December 2012	144	–	144
At 28 December 2013	1,012	–	1,012
At 29 December 2013	**1,012**	**–**	**1,012**
At 3 January 2015	**1,729**	**2,992**	**4,721**

Assets under development relate to software projects arising from our investment in new systems platforms.

Notes to the consolidated accounts
(continued)

11. Property, plant and equipment

Group

	Land and buildings £'000	Plant and equipment £'000	Fixtures and fittings £'000	Assets under construction £'000	Total £'000
Cost					
Balance at 30 December 2012	134,977	115,071	238,838	–	488,886
Additions	746	11,386	34,469	–	46,601
Disposals	(692)	(6,305)	(24,113)	–	(31,110)
Balance at 28 December 2013	135,031	120,152	249,194	–	504,377
Balance at 29 December 2013	**135,031**	**120,152**	**249,194**	**–**	**504,377**
Additions	**429**	**10,121**	**34,278**	**278**	**45,106**
Disposals	**(612)**	**(6,654)**	**(32,748)**	**–**	**(40,014)**
Transfer to assets held for sale	**(6,885)**	**–**	**–**	**–**	**(6,885)**
Balance at 3 January 2015	**127,963**	**123,619**	**250,724**	**278**	**502,584**
Depreciation					
Balance at 30 December 2012	28,304	71,442	124,883	–	224,629
Depreciation charge for the year	2,797	8,940	21,488	–	33,225
Ordinary impairment charge for the year	–	–	2,241	–	2,241
Exceptional impairment charge for the year (see Note 4)	1,221	–	1,790	–	3,011
Disposals	(386)	(5,681)	(20,459)	–	(26,526)
Balance at 28 December 2013	31,936	74,701	129,943	–	236,580
Balance at 29 December 2013	**31,936**	**74,701**	**129,943**	**–**	**236,580**
Depreciation charge for the year	**2,838**	**10,529**	**24,096**	**–**	**37,463**
Ordinary impairment charge for the year	**–**	**–**	**974**	**–**	**974**
Ordinary impairment release for the year	**–**	**–**	**(411)**	**–**	**(411)**
Exceptional impairment release for the year (see Note 4)	**–**	**–**	**(149)**	**–**	**(149)**
Disposals	**(297)**	**(5,468)**	**(28,442)**	**–**	**(34,207)**
Transfer to assets held for sale	**(385)**	**–**	**–**	**–**	**(385)**
Balance at 3 January 2015	**34,092**	**79,762**	**126,011**	**–**	**239,865**
Carrying amounts					
At 30 December 2012	106,673	43,629	113,955	–	264,257
At 28 December 2013	103,095	45,451	119,251	–	267,797
At 29 December 2013	**103,095**	**45,451**	**119,251**	**–**	**267,797**
At 3 January 2015	**93,871**	**43,857**	**124,713**	**278**	**262,719**

Assets are reviewed for impairment on a regular basis and provision made where necessary. For shop assets a discounted cashflow is calculated for each shop using historic cashflows including attributable overheads, a zero per cent growth rate, the Group's cost of capital of 10 per cent and an appropriate assumption regarding the remaining lease term. The net book value of the relevant assets attributable to the shop is impaired to the extent that the net present value of the cashflows is lower than the net book value. Supply chain assets are impaired to their estimated net realisable value.

Included within disposals for the year were fixtures and fittings with a net book value of £849,000 which related to the closure of the in-store bakeries. The loss on disposal of these assets was £664,000 and formed part of the exceptional charge detailed in Note 4.

Parent Company

	Land and buildings £'000	Plant and equipment £'000	Fixtures and fittings £'000	Assets under construction £'000	Total £'000
Cost					
Balance at 30 December 2012	135,487	115,604	239,326	–	490,417
Additions	746	11,386	34,469	–	46,601
Disposals	(692)	(6,305)	(24,113)	–	(31,110)
Balance at 28 December 2013	135,541	120,685	249,682	–	505,908
Balance at 29 December 2013	**135,541**	**120,685**	**249,682**	**–**	**505,908**
Additions	**429**	**10,121**	**34,278**	**278**	**45,106**
Disposals	**(612)**	**(6,654)**	**(32,748)**	**–**	**(40,014)**
Transfer to assets held for sale	**(6,885)**	**–**	**–**	**–**	**(6,885)**
Balance at 3 January 2015	**128,473**	**124,152**	**251,212**	**278**	**504,115**
Depreciation					
Balance at 30 December 2012	28,581	71,712	125,274	–	225,567
Depreciation charge for the year	2,797	8,940	21,488	–	33,225
Ordinary impairment charge for the year	–	–	2,241	–	2,241
Exceptional impairment charge for the year (see Note 4)	1,221	–	1,790	–	3,011
Disposals	(386)	(5,681)	(20,459)	–	(26,526)
Balance at 28 December 2013	32,213	74,971	130,334	–	237,518
Balance at 29 December 2013	**32,213**	**74,971**	**130,334**	**–**	**237,518**
Depreciation charge for the year	**2,838**	**10,529**	**24,096**	**–**	**37,463**
Ordinary impairment charge for the year	**–**	**–**	**974**	**–**	**974**
Ordinary impairment release for the year	**–**	**–**	**(411)**	**–**	**(411)**
Exceptional impairment release for the year (see Note 4)	**–**	**–**	**(149)**	**–**	**(149)**
Disposals	**(297)**	**(5,468)**	**(28,442)**	**–**	**(34,207)**
Transfer to assets held for sale	**(385)**	**–**	**–**	**–**	**(385)**
Balance at 3 January 2015	**34,369**	**80,032**	**126,402**	**–**	**240,803**
Carrying amounts					
At 30 December 2012	106,906	43,892	114,052	–	264,850
At 28 December 2013	103,328	45,714	119,348	–	268,390
At 29 December 2013	**103,328**	**45,714**	**119,348**	**–**	**268,390**
At 3 January 2015	**94,104**	**44,120**	**124,810**	**278**	**263,312**

Land and buildings

The carrying amount of land and building comprises:

	Group		Parent Company	
	2014 £'000	2013 £'000	**2014 £'000**	2013 £'000
Freehold property	**93,808**	103,013	**94,041**	103,246
Long leasehold property	**1**	2	**1**	2
Short leasehold property	**62**	80	**62**	80
	93,871	103,095	**94,104**	103,328

Notes to the consolidated accounts
(continued)

12. Investments
Non-current investments
Parent Company

	Shares in subsidiary undertakings £'000
Cost	
Balance at 30 December 2012, 29 December 2013 and 3 January 2015	**5,828**
Impairment	
Balance at 30 December 2012, 29 December 2013 and 3 January 2015	**841**
Carrying amount	
As at 30 December 2012, 28 December 2013, 29 December 2013 and 3 January 2015	**4,987**

The Company's subsidiary undertakings, which are all wholly owned and consolidated, 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

The Company's subsidiary undertakings listed above were all entitled to exemption, under subsections (1) and (2) of section 480 of the Companies Act 2006 relating to dormant companies, from the requirement to have their accounts audited.

Current investments

	Group and Parent Company	
	2014 £'000	2013 £'000
Fixed-term deposit	**10,000**	3,000

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

13. Inventories

	Group and Parent Company	
	2014 £'000	2013 £'000
Raw materials and consumables	**11,833**	11,604
Work in progress	**3,457**	3,801
	15,290	15,405

14. Trade and other receivables

	Group and Parent Company	
	2014 £'000	2013 £'000
Trade receivables	**7,311**	5,331
Other receivables	**6,512**	4,720
Prepayments	**12,268**	14,961
	26,091	25,012

At 3 January 2015 trade receivables are shown net of an allowance for bad debts of £41,000 (2013: £37,000) arising in the ordinary course of business.

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

	Group and Parent Company	
	2014 £'000	2013 £'000
Not past due date	**5,398**	4,282
Past due 1-30 days	**1,765**	1,003
Past due 31-90 days	**148**	46
	7,311	5,331

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

15. Assets held for sale

The asset held for sale at 3 January 2015 is land at Southall which has been identified as no longer required for supply chain expansion. An offer for the site was made prior to the end of the year and negotiations to finalise the sale are ongoing.

16. Cash and cash equivalents

	Group and Parent Company	
	2014 £'000	2013 £'000
Cash and cash equivalents	**43,615**	21,572

17. Trade and other payables

	Group		Parent Company	
	2014 £'000	2013 £'000	**2014 £'000**	2013 £'000
Trade payables	**40,865**	36,152	**40,865**	36,152
Amounts owed to subsidiary undertakings	**–**	–	**7,807**	7,807
Other taxes and social security	**5,767**	6,687	**5,767**	6,687
Other payables	**24,753**	17,463	**24,753**	17,463
Accruals and deferred income	**18,101**	11,433	**18,101**	11,433
Deferred government grants	**468**	468	**468**	468
	89,954	72,203	**97,761**	80,010

18. Current tax liability

The current tax liability of £8,056,000 in the Group and the Parent Company (2013: Group and Parent Company £5,564,000) represents the estimated amount of income taxes payable in respect of current and prior years.

19. Non-current liabilities – other payables

	Group and Parent Company	
	2014 £'000	2013 £'000
Deferred government grants	**6,555**	7,028
Deferred dividends	**–**	12
	6,555	7,040

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)

20. Deferred tax assets and liabilities

Group

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2014 £'000	2013 £'000	**2014 £'000**	2013 £'000	**2014 £'000**	2013 £'000
Property, plant and equipment	**–**	–	**7,054**	8,608	**7,054**	8,608
Employee benefits	**(4,034)**	(809)	**–**	–	**(4,034)**	(809)
Short-term temporary differences	**(481)**	(291)	**–**	–	**(481)**	(291)
Tax (assets)/liabilities	**(4,515)**	(1,100)	**7,054**	8,608	**2,539**	7,508

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

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

The movements in temporary differences during the year ended 3 January 2015 were as follows:

	Balance at 29 December 2013 £'000	Recognised in income £'000	Recognised in equity £'000	**Balance at 3 January 2015 £'000**
Property, plant and equipment	8,608	(1,554)	–	**7,054**
Employee benefits	(809)	(82)	(3,143)	**(4,034)**
Short-term temporary differences	(291)	(190)	–	**(481)**
	7,508	(1,826)	(3,143)	**2,539**

Parent Company

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2014 £'000	2013 £'000	**2014 £'000**	2013 £'000	**2014 £'000**	2013 £'000
Property, plant and equipment	**–**	–	**6,527**	8,081	**6,527**	8,081
Employee benefits	**(4,034)**	(809)	**–**	–	**(4,034)**	(809)
Short-term temporary differences	**(481)**	(291)	**–**	–	**(481)**	(291)
Tax (assets)/liabilities	**(4,515)**	(1,100)	**6,527**	8,081	**2,012**	6,981

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

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

The movements in temporary differences during the year ended 3 January 2015 were as follows:

	Balance at 29 December 2013 £'000	Recognised in income £'000	Recognised in equity £'000	**Balance at 3 January 2015 £'000**
Property, plant and equipment	8,081	(1,554)	–	**6,527**
Employee benefits	(809)	(82)	(3,143)	**(4,034)**
Short-term temporary differences	(291)	(190)	–	**(481)**
	6,981	(1,826)	(3,143)	**2,012**

21. Employee benefits

Defined benefit plan

Scheme background

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

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

UK legislation requires that pension schemes are funded prudently. The last funding valuation of the scheme was carried out by a qualified actuary as at 6 April 2011 and showed a surplus. The Company is currently not required to pay contributions into the scheme. The funding valuation to 6 April 2014 is currently being finalised and is expected to continue to show a surplus position.

Profile of the scheme

The defined benefit obligation includes benefits for former employees and current pensioners. Broadly, 60 per cent of the liabilities are attributable to former employees and 40 per cent to current pensioners.

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

Investment strategy

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

	Group and Parent Company	
	2014 £'000	2013 £'000
Defined benefit obligation	**(106,201)**	(95,597)
Fair value of plan assets	**97,683**	95,652
Net defined benefit (liability)/asset	**(8,518)**	55

Liability for defined benefit obligations

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

	Group and Parent Company	
	2014 £'000	2013 £'000
Opening defined benefit obligation	**95,597**	90,333
Interest cost	**4,142**	4,000
Re-measurement losses	**9,728**	4,169
Benefits paid	**(3,266)**	(2,905)
	106,201	95,597

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

	Group and Parent Company	
	2014 £'000	2013 £'000
Opening fair value of plan assets	**95,652**	86,277
Net interest on plan assets	**4,144**	3,818
Re-measurement gains	**1,153**	8,462
Benefits paid	**(3,266)**	(2,905)
Closing fair value of plan assets	**97,683**	95,652

The costs (credited)/charged in the income statement are as follows:

	Group	
	2014 £'000	2013 £'000
Interest income/(expense) on net defined benefit liability	**2**	(182)

Notes to the consolidated accounts
(continued)

21. Employee benefits (continued)

The amounts recognised in other comprehensive income are as follows:

	Group	
	2014 £'000	2013 £'000
Re-measurements on defined benefit pension plans	**(8,575)**	4,293

Cumulative re-measurement 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 £26,134,000 (2013: net losses of £17,559,000).

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

	Group and Parent Company	
	2014 £'000	2013 £'000
Equities – UK	**39,432**	32,809
– overseas	**30,878**	34,244
Bonds – corporate	**16,765**	14,252
– government	**3,512**	9,470
Property	**2,592**	2,200
Cash and cash equivalents/other	**4,504**	2,677
	97,683	95,652

The plan assets include ordinary shares issued by the Company with a fair value of £nil (2013: £329,000).

Principal actuarial assumptions (expressed as weighted averages):

	Group and Parent Company	
	2014	2013
Discount rate	**3.6%**	4.4%
Future salary increases	**n/a**	n/a
Future pension increases	**1.6% – 2.4%**	1.8% – 2.4%

Mortality assumption

Mortality in retirement is assumed to be in line with the S1PXA tables using CMI_2011 projections and a long-term rate of 1 per cent p.a. Under these assumptions, pensioners aged 65 now are expected to live for a further 22.1 years if they are male and 24.4 years if they are female. Members currently aged 45 are expected to live for a further 23.4 years from age 65 if they are male and for a further 25.9 years from age 65 if they are female.

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

	Change in assumption	Impact on scheme liabilities
Discount rate	0.1% increase	Reduction of £1.2m
Inflation	0.1% decrease	Reduction of £1.2m
Mortality rates	1 year increase	Increase of £3.6m

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

The Group expects to contribute £nil to its defined benefit plan in 2015.

Defined contribution plan

The Company also operates defined contribution schemes for other eligible employees. The assets of the schemes are held separately from those of the Group. The pension cost represents contributions payable by the Group and amounted to £9,901,000 (2013: £9,030,000) in the year.

Share-based payments – Group and Parent Company

The Group has established a Savings Related Share Option Scheme, which granted options in April 2003, September 2004, September 2005, September 2006, April 2008, September 2009, April 2011, April 2012, April 2013 and April 2014 and an Executive Share Option Scheme, which granted options in September 2003, March 2004, August 2004, September 2004, August 2006, April 2008, April 2009, August 2011, March 2013 and April 2014.

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

The Company established a Performance Share Plan in 2009 and grants of options have been made under this scheme in April 2010, March 2011, March 2012, March 2013 and March 2014.

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

	Date of grant	Employees entitled	Exercise price	Number of shares granted	Vesting conditions	Contractual life
Executive Share Option Scheme 11	August 2004	Senior employees	340p	930,000	Three years' service and EPS growth of 3-5% over RPI on average over those three years	10 years
Executive Share Option Scheme 12	August 2006	Senior employees	407p	1,028,000	Three years' service and EPS growth of 3-5% over RPI on average over those three years	10 years
Executive Share Option Scheme 13	April 2008	Senior employees	457p	618,500	Three years' service and EPS growth of 3-5% over RPI on average over those three years	10 years
Executive Share Option Scheme 14	April 2009	Senior employees	356p	2,012,000	Three years' service and EPS growth of 3-7% over RPI on average over those three years	10 years
Performance Share Plan 2	March 2011	Senior executives	Nil	223,418	Three years' service, EPS annual compound growth of 3-8% over RPI over those three years and TSR position relative to an appropriate comparator group	10 years
Savings Related Share Option Scheme 12	April 2011	All employees	453p	697,609	Three years' service	3.5 years
Executive Share Option Scheme 15	August 2011	Senior employees	482p	707,000	Three years' service and EPS growth of 3-7% over RPI on average over those three years	10 years
Performance Share Plan 3	March 2012	Senior executives	Nil	248,922	Three years' service, EPS annual compound growth of 3-8% over RPI over those three years and TSR position relative to an appropriate comparator group	10 years
Savings Related Share Option Scheme 13	April 2012	All employees	468p	703,332	Three years' service	3.5 years
Executive Share Option Scheme 16	March 2013	Senior employees	480p	693,000	Three years' service and EPS growth of 3-7% over RPI on average over those three years	10 years
Transitional bonus share award	March 2013	Chief Executive	Nil	60,000	Continuous service of 2 and 3 years	3 years
Performance Share Plan 4	March 2013	Senior executives	Nil	305,592	Three years' service, EPS annual compound growth of 3-8% over RPI over those three years and TSR position relative to an appropriate comparator group	10 years
Savings Related Share Option Scheme 14	April 2013	All employees	414p	699,989	Three years' service	3.5 years
Recruitment share award	February 2014	Senior executive	Nil	5,517	Continuous service of 2 years	2 years
Performance Share Plan 5	March 2014	Senior executives	Nil	324,599	Three years' service, EPS annual compound growth of 1-4% over RPI over those three years and average annual ROCE of 15.5-17% over those three years	10 years
Executive Share Option Scheme 17	April 2014	Senior employees	500p	598,225	Three years' service and EPS growth of 1-4% over RPI on average over those three years	10 years
Savings Related Share Option Scheme 15	April 2014	All employees	465p	696,344	Three years' service	3.5 years

Notes to the consolidated accounts
(continued)

21. Employee benefits (continued)

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

	2014 Weighted average exercise price	2014 Number of options	2013 Weighted average exercise price	2013 Number of options
Outstanding at the beginning of the year	**382p**	**5,155,631**	374p	4,172,263
Lapsed during the year	**406p**	**(1,151,544)**	244p	(583,411)
Exercised during the year	**404p**	**(1,264,132)**	360p	(191,802)
Granted during the year	**391p**	**1,593,571**	354p	1,758,581
Outstanding at end of year	**369p**	**4,333,526**	382p	5,155,631
Exercisable at end of year	**384p**	**640,812**	380p	1,430,650

The options outstanding at 3 January 2015 have an exercise price in the range of £nil to £5.00 and have a weighted average contractual life of five years. The options exercised during the year had a weighted average market value of £5.33 (2013: £4.51).

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on the Black-Scholes model for Savings Related Share Option Schemes and Executive Share Option Schemes and for Performance Share Plan options granted in 2014. The Monte Carlo option pricing model was used for all other Performance Share Plans. The fair value per option granted and the assumptions used in these calculations are as follows:

	2014 Performance Share Plan 5 March 2014	2014 Recruitment share award Feb 2014	2014 Executive Share Option Scheme 17 April 2014	2014 Savings Related Share Options Scheme 15 April 2014	2013 Performance Share Plan 4 March 2013	2013 Transitional share bonus award March 2013	2013 Executive Share Option Scheme 16 March 2013	2013 Savings Related Share Options Scheme 14 April 2013
Fair value at grant date	**443p**	**499p**	**48p**	**68p**	327p	474p	34p	49p
Share price	**498p**	**499p**	**500p**	**517p**	474p	474p	480p	460p
Exercise price	**nil**	**nil**	**500p**	**465p**	nil	nil	480p	414p
Expected volatility	**20.6%**	**–**	**20.6%**	**20.7%**	17.8%	–	17.8%	18.9%
Option life	**3 years**	**2 years**	**3 years**	**3 years**	3 years	2 - 3 years	3 years	3 years
Expected dividend yield	**3.92%**	**–**	**3.92%**	**3.92%**	4.06%	–	4.06%	4.24%
Risk-free rate	**1.07%**	**–**	**1.07%**	**1.07%**	0.31%	–	0.34%	0.34%

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.

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

	2014 £'000	2013 £'000
Share options granted in 2009	**–**	(22)
Share options granted in 2010	**–**	(239)
Share options granted in 2011	**(453)**	284
Share options granted in 2012	**(38)**	244
Share options granted in 2013	**524**	325
Share options granted in 2014	**496**	–
Total expense recognised as employee costs	**529**	592

22. Provisions

	Group and Parent Company			
	2014 Dilapidations £'000	2014 Onerous leases £'000	**2014 Total £'000**	2013 Total £'000
Balance at start of year	**1,689**	3,672	**5,361**	1,754
Transfer from trade and other payables	**–**	–	**–**	433
Additional provision in the year	**3,330**	1,232	**4,562**	5,380
Utilised in year	**(1,249)**	(1,369)	**(2,618)**	(1,874)
Provisions reversed during the year	**(314)**	(380)	**(694)**	(332)
Balance at end of year	**3,456**	3,155	**6,611**	5,361
Included in current liabilities	**2,474**	1,635	**4,109**	2,949
Included in non-current liabilities	**982**	1,520	**2,502**	2,412
	3,456	3,155	**6,611**	5,361

Provisions relate to onerous leases, dilapidations and other commitments associated with properties. Included within the provision is £733,000 in respect of possible recourse on leases which have been conditionally assigned.

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

The Group provides for property dilapidations, where appropriate, based on estimated costs of the dilapidation repairs. £2,078,000 of the additional provision made in the year in respect of dilapidations was exceptional and relates to the dilapidation costs arising from the removal of in-store bakeries from shops as described in Note 4. £982,000 of this is expected to be utilised after more than one year. The remainder of the dilapidations provision is expected to be utilised within one year.

23. Capital and reserves

Share capital

	Ordinary shares	
	2014 Number	2013 Number
In issue and fully paid at start and end of year – ordinary shares of 2p	**101,155,901**	101,155,901

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Capital redemption reserve

The capital redemption reserve relates to the nominal value of issued share capital bought back by the Company and cancelled.

Own shares held

Deducted from retained earnings is £6,750,000 (2013: £4,134,000) 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 805,034 shares (2013: 657,210 shares) with a market value at 3 January 2015 of £5,841,000 (2013: £2,885,000) which have not vested unconditionally in employees. During the year the Trust purchased 1,446,525 shares for an aggregate consideration of £7,873,000.

The shares held by the Greggs Employee Benefit Trust can be purchased either by employees on the exercise of an option under the Greggs Executive Share Option Schemes, Greggs Savings Related Share Option Schemes and Greggs Performance Share Plan or by the Trustees of the Greggs Employee Share Scheme. The Trustees have elected to waive the dividends payable on these shares.

Notes to the consolidated accounts
(continued)

23. Capital and reserves (continued)

Dividends

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

	2014 Per share pence	2013 Per share pence
2012 final dividend	–	13.5p
2013 interim dividend	–	6.0p
2013 final dividend	13.5p	–
2014 interim dividend	6.0p	–
	19.5p	19.5p

The proposed final dividend in respect of 2014 amounts to 16.0 pence per share (£16,056,000). This proposed dividend is subject to approval at the Annual General Meeting and has not been included as a liability in these accounts.

	2014 £'000	2013 £'000
2012 final dividend	–	13,555
2013 interim dividend	–	6,027
2013 final dividend	13,530	–
2014 interim dividend	6,040	–
	19,570	19,582

24. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2014 Property £'000	2014 Equipment £'000	2014 Total £'000	2013 Property £'000	2013 Equipment £'000	2013 Total £'000
Less than one year	36,887	2,031	38,918	38,144	2,097	40,241
Between one and five years	73,630	3,048	76,678	75,178	3,666	78,844
More than five years	12,210	247	12,457	14,046	493	14,539
	122,727	5,326	128,053	127,368	6,256	133,624

The Group leases the majority of its shops under operating leases. The leases typically run for a period of ten years, with an option to renew the lease after that date. Lease payments are generally increased every five years to reflect market rentals. For a small number of the leases the rental is contingent on the level of turnover achieved in the relevant unit and these amounts are immaterial.

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.

25. Capital commitments

During the year ended 3 January 2015, the Group entered into contracts to purchase property, plant and equipment and intangible assets for £6,454,000 (2013: £3,023,000). These commitments are expected to be settled in the following financial year.

26. Related parties

Identity of related parties

The Group has a related party relationship with its subsidiaries (see Note 12) and its Directors and executive officers.

Trading transactions with subsidiaries – Group

There have been no transactions between the Company and its subsidiaries during the year (2013: £nil).

Trading transactions with subsidiaries – Parent Company

	Amounts owed to related parties		Amounts owed by related parties	
	2014 £'000	2013 £'000	**2014 £'000**	2013 £'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 £520,000.

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)	
	2014 (or date of cessation if earlier)	2013 (or date of appointment if later)	**2014 (or date of cessation if earlier)**	2013 (or date of appointment if later)
Roger Whiteside	**72,253**	72,253	**–**	–
Richard Hutton	**55,787**	55,413	**600,000**	1,000,000
Raymond Reynolds	**53,224**	52,850	**–**	–
Ian Durant (Non-Executive)	**11,700**	11,700	**–**	–
Julie Baddeley (Non-Executive)	**6,000**	6,000	**–**	–
Iain Ferguson (Non-Executive)	**15,000**	15,000	**–**	–
Allison Kirkby (Non-Executive)	**1,600**	600	**–**	–
Helena Ganczakowski (Non-Executive)	**1,000**	–	**–**	–
Peter McPhillips (Non-Executive)	**–**	–	**–**	–
Sandra Turner (Non-Executive)	**–**	–	**–**	–

Details of Directors' share options, emoluments, pension benefits and other non-cash benefits can be found in the Directors' Remuneration Report on pages 48 to 63. Summary information on remuneration of key management personnel is included in Note 5.

There have been no changes since 3 January 2015 in the Directors' interests noted above, other than that on 4 March 2015 Peter McPhillips purchased a beneficial holding of 500 ordinary shares of 2p.

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Ten-year history

	2005	2006	2007	2008	2009ˆ	2010	2011	2012 (as restated)$	2013	2014ˆ
Turnover (£'m)	533.4	550.8	586.3	628.2	658.2	662.3	701.1	734.5	762.4	804.0
Total sales growth (%)	5.8%ˆ	3.3%	6.4%	7.1%	4.8%ˆ	0.6%ˆ	5.8%	4.8%	3.8%	5.5%ˆ
Like-for-like sales growth (%)	4.0%	0.5%	5.3%	4.4%	0.8%	0.2%	1.4%	(2.7%)	(0.8%)	4.5%
Earnings before interest and tax (EBIT) excluding exceptional items (£'m)	47.1	42.2	47.7	44.3	48.4	52.4	53.0	51.3	41.5	58.1
EBIT margin excluding exceptional items (%)	8.8%	7.7%	8.1%	7.1%	7.4%	7.9%	7.6%	7.0%	5.4%	7.2%
Exceptional (charge)/credit (£'m)	–	(3.5)	2.2	4.3	–	–	7.4	1.4	(8.1)	(8.5)
Profit on ordinary activities including exceptional items and before tax (£'m)	50.2	40.2	51.1	49.5	48.8	52.5	60.5	52.4	33.2	49.7
Diluted earnings per share excluding exceptional items (pence)‡	27.9	26.2	32.0	30.6	34.0	37.3	38.8	38.3	30.6	43.4
Dividend per share (pence)‡	10.6	11.6	14.0	14.9	16.6	18.2	19.3	19.5	19.5	22.0
Total shareholder return (%)	31%	(5%)	12%	(22%)	29%	11%	13%	(6%)	1%	70%
Capital expenditure (£'m)	41.7	30.0	42.3	40.8	30.3	45.6	59.1	46.9	47.6	48.9
Return on capital employed (%)	24.6%	23.1%	29.6%	26.2%	25.9%	25.9%	24.4%	21.3%	16.4%	22.4%
Number of shops in operation at year end	1,319	1,336	1,368	1,409	1,419	1,487	1,571	1,671	1,671	1,650

ˆ 2004, 2009 and 2014 were 53 week years, impacting on total sales growth for that year and the year immediately following
‡ all years prior to 2009 adjusted to take account of the ten for one share split which took place during 2009
$ restated following the adoption of IAS 19 (Revised)

Additional Information

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 29 December 2013 and 3 January 2015 (or at date of appointment if later) are set out in Note 26 to the accounts. Details of Directors' share options are set out in the Directors' Remuneration Report on pages 48 to 63.

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

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

Directors' indemnities and conflicts

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

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

Additional Information

- The information set out within the Governance Report on pages 38 to 42 forms part of the Directors' Report.
- Greenhouse gas emissions: All disclosures concerning the Group's greenhouse gas emissions (as required to be disclosed under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013) are contained in the Social Responsibility section of the Strategic Review on page 33.

Authority to purchase shares

At the AGM on 1 May 2014, the shareholders passed a resolution authorising the purchase by the Company of its own shares to a maximum of 10,350,000 ordinary shares of 2p each.

That authority had not been used as at 3 January 2015.

The authority remains in force until the conclusion of the AGM in 2015 or 1 August 2015, whichever is the earlier. It is the Board's intention to seek approval at the 2015 AGM for the renewal of this authority.

Takeover directive information

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

- The Company has one class of share in issue being ordinary shares of 2p each. As at 4 March 2015, there were 101,155,901 such ordinary shares in issue. There are no shares in the Company that grant the holder special rights with regard to control of the Company;
- At general meetings of the Company, on a show of hands every shareholder present in person or by proxy has one vote only and, in the case of a poll, every shareholder present in person or by proxy has one vote for every share in the capital of the Company held by him;
- The Company's articles of association set out the circumstances in which shares may become disenfranchised. No shareholder is entitled, unless the Directors otherwise determine, in respect of any share held by him to be present or vote at a general meeting either personally or by proxy (or to exercise any other right in relation to meetings of the Company) in respect of that share in certain circumstances if any call or other sum is payable and remains unpaid, if the shareholder is in default in complying with a duly served notice under section 793(1) of the Companies Act 2006 (CA 2006) or if the shareholder has failed to reply to a duly served notice requiring him to provide a written statement stating he is the beneficial owner of shares;
- A notice convening a general meeting can contain a statement that a shareholder is not entitled to attend and vote at a general meeting unless his name is entered on the register of members of the Company at a specific time (not more than 48 hours before the meeting) and if a shareholder's name is not so entered he is not entitled to attend and vote;
- Under the Company's articles of association the Directors may, in their absolute discretion, refuse to register the transfer of a share in certified form in certain circumstances where the Company has a lien on the share (provided that the Directors do not exercise their discretion so as to prevent dealings in partly paid shares from taking place on an open and proper basis), where a shareholder has failed to reply to a duly served notice under section 793(1) CA 2006 or if a transfer of a share is in favour of more than four persons jointly. In addition, the Directors may decline to recognise any instrument of transfer unless it is in respect of only one class of share and is deposited at the address at which the register of members of the Company is held (or at such other place as the Directors may determine) accompanied by the relevant share certificate(s) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer. In respect of shares held in uncertificated form the Directors may only refuse to register transfers in accordance with the Uncertificated Securities Regulations 2001 (as amended from time to time);

Additional Information
(continued)

- Under the Company's code on dealings in securities in the Company, persons discharging managerial responsibilities and some other senior executives may in certain circumstances be restricted as to when they can transfer shares in the Company;
- There are no agreements between shareholders known to the Company which may result in restrictions on the transfer of shares or on voting rights;
- Details of the significant holders of the Company's shares are set out on page 42;
- Where, under an employee share plan operated by the Company, 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 must retire from office but is eligible for election by the shareholders. Furthermore, the Board has resolved that, in line with Governance Code provision B.7.1, all of the Directors will be subject to annual re-election by shareholders. Under the CA 2006 and the Company's articles of association, a Director can be removed from office by the shareholders in a general meeting;
- The Company's articles of association set out the powers of the Directors. The business of the Company is to be managed by the Directors who may exercise all the powers of the Company and do on behalf of the Company all such acts as may be exercised and done by the Company and are not by any relevant statutes or by the Company's articles of association required to be exercised or done by the Company in general meeting, subject to the provisions of any relevant statutes and the Company's articles of association and to such regulations as may be prescribed by the Company by special resolution;
- Under the CA 2006 and the Company's articles of association, the Directors' powers include the power to allot and 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; and
- There are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) that occurs because of a takeover bid. Details of the Directors' service agreements and terms of appointment are set out in the Directors Remuneration Report on pages 48 to 63. However, provisions in the employee share plans operated by the Company may allow options to be exercised on a takeover.

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

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

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

Notes

Notes

Financial calendar

Announcement of results and dividends

Half year	Early August
Full year	Early March

Dividends

Interim	Mid-October
Final	8 May 2015

Annual report posted to shareholders	Late March
Annual General Meeting	30 April 2015

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