GREGGS

Everyday tastes good™

Investing in our future

Greggs plc Annual Report and Accounts 2017

GREGGS

Everyday tastes good™

because...

We have been making

GREAT QUALITY

bakery products **OURSELVES** *for over 75 years*

Every savoury is *freshly baked* in our shops

Every sandwich is **FRESHLY PREPARED** *every day*

OUR BALANCED CHOICE range continues to grow and now accounts for more than £100m of sales

Gluten FREE

ALL THE TASTE. BALANCED choice ALL UNDER 400 CALORIES.™

21,000 well trained colleagues provide *great service* to their customers

We fuel the nation with our great coffee, and had record-breaking sales in 2017

OPEN

We are **OPEN** when our customers want us to be, including from 7am and on Sundays

We loved rewarding our customers for their loyalty last year and reached the **1 million app downloads milestone**

CR INDEX 2018 ★★★★★ BUSINESS IN THE COMMUNITY

We want to make a **positive impact** on people's lives

FTSE4Good

...We launched **reusable coffee cups** in all of our shops, alongside a **GREAT DISCOUNT** on all hot drinks for customers using one

450+ BREAKFAST CLUBS

Greggs Foundation celebrated its 30th anniversary

We donated **45% more** unsold food in 2017 than we did in 2016. This year, we'll try and give away ***even more***

Playing a key role in the **FOOD-ON-THE-GO** sector on **sugar reduction** in response to the Government's commitment

We help customers to make informed choices and introduced nutrition traffic lights to product details on our website

We made a **PLEDGE FOR VEG** *to help our customers to eat more vegetables*

Peas Please
Making a pledge for more veg

We care about our planet too...
making sure our **carbon footprint** *got smaller again*

CARBON TRUST STANDARD
REDUCING CO2 YEAR ON YEAR

WE ARE INVESTING

Constantly to improve our shops and open new ones

We've ambitions to grow to over **2,000** shops nationwide

£25m to **MODERNISE** and **CENTRALISE** our systems and processes

£100m to reshape our ***supply chain*** to ***support shop growth***

We stand for great tasting, freshly prepared food that our customers can trust, at affordable prices and aim to become the customers' favourite for food-on-the-go.

With ownership of our supply chain and ambitions to grow to over 2,000 shops nationwide, we are in a unique position to **make good, freshly prepared food accessible to everyone, ensuring that 'Everyday tastes good'** at Greggs.

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FINANCIAL HIGHLIGHTS

	Underlying excluding exceptional items	Total including exceptional items
Total sales	£960m +7.4%	£960m +7.4%
Company-managed shop like-for-like (LFL) sales growth	3.7%	3.7%
Pre-tax profit	£81.8m +1.9%	£71.9m -4.3%
Diluted EPS	63.5p	55.7p
Ordinary dividend	32.3p +4.2%	32.3p +4.2%
Return on capital employed	26.9%	23.7%

Underlying excluding exceptional items
Total including exceptional items

Detailed calculations of Alternative Performance Measures, not otherwise shown in the Income Statement and related notes, are detailed on page 106.

STRATEGIC PROGRESS

2017 has been another year of strong performance as we continued on our journey to transform Greggs into a winning brand in the food-on-the-go market. We've been busy developing our great product offer to meet customer needs, opening more shops in new locations while refurbishing our existing estate and investing in improved customer service.

We made significant progress in the fourth year of our major process and systems investment programme. We have made a good start with our £100 million supply chain investment programme to increase logistics capacity, consolidate our manufacturing operations into centres of excellence to improve product quality and support shop growth, allowing us to compete more effectively in the food-on-the-go market. The result has been a fourth consecutive year of strong like-for-like sales growth and record profits.

Becoming the customers' favourite for food-on-the-go

Greggs is a strong and trusted brand and we draw on our heritage in fresh bakery to compete successfully in the food-on-the-go market. Having made strong progress in recent years, we have set the bar higher with our vision and strategic plan reflecting longer-term ambitions and commitment to putting the customer at the heart of our strategy.

Our purpose

Our business began in the 1930s, serving fresh bakery products to working families in the North East at prices everyone could afford. Today we're just as keen for Greggs to have a positive impact on people's lives. With ambitions to grow to over 2,000 shops nationwide and ownership of our supply chain, we are in a unique position to make good, freshly prepared food accessible to everyone.

Our vision

In recent years we have shown we can be a winning brand in the food-on-the-go market and our vision is to become the customers' favourite for food-on-the-go. To achieve this, we have been working hard to see the business through the eyes of our customers. We continue to invest in understanding their needs and ensure we have amazing teams in place to deliver the fast and friendly service our customers know and love. Insight provided by our award-winning Greggs Rewards app and dedicated customer insight team helps to inform decision making throughout the business and better meet customer needs every day.

Our operations

Ownership of our supply chain means that we can make good, freshly prepared food accessible to everyone at great value in an extremely competitive market place. By managing our own logistics operation we can remain focused on the customer, delivering what our shops and customers need on time and in full.

Our target market

Greggs is a brand with universal appeal and we have been working hard to ensure we understand our customers and evolve our offer in response to their changing needs as we continue our journey to become the customers' favourite for food-on-the-go.

Our market locations

As the internet changes the way we shop and food-on-the go eating habits evolve, we have built on our existing estate of shops to take Greggs where our customers want us to be. As a result, we can now be found in retail parks, shopping centres, industrial estates and office parks. We are also located where our customers need us when travelling, with shops in travel hubs, roadside locations with parking and now in Drive Thru format. Through our franchise partnerships we are also in motorway service stations and petrol forecourts.

Investment to reshape our supply chain to support shop growth:

£100m

Investment to modernise and centralise our systems and processes:

£25m

BUSINESS MODEL

WHAT WE DO

Manufacturing
Delivery
Shops
Support

WHERE WE OPERATE

Shopping
Travel
Work
Leisure

WHAT WE OFFER

Quality
Convenience
Value
Service

STRATEGY

Great tasting, freshly prepared food

Best customer experience

Competitive supply chain

First class support teams

Turn to **page 08** to find out more.

RISKS AND UNCERTAINTIES

Business change

Product quality and safety

Food scare

Loss of production

Market pressure

Consumer trends

Turn to **page 33** to find out more.

POSITIVE IMPACT

Customer health
We encourage healthier food-on-the-go choices

Responsible sourcing
We care about where our ingredients come from

Community
We share our success with the people around us

Environment
We aim to use energy efficiently and minimise waste

People
We are committed to creating a great place to work

Turn to **pages 16-23** to find out more.

Investing to create the platform to deliver long-term growth

Greggs performed well in 2017, delivering further like-for-like sales growth as well as expanding its estate of shops. This was achieved despite significant inflationary headwinds and alongside continued major investment in line with our strategic plan. These investments are creating the platform for us to deliver sustainable long-term growth for the benefit of all stakeholders.

Overview

Greggs once again demonstrated the resilience of its people and business model, delivering a solid trading and financial performance in the face of increased cost inflation and a strategic change programme. The development of our products and shop formats has opened up additional opportunities for growth in shop numbers and we expect this expansion to continue in the year ahead. We are investing significantly in our supply chain to enable this growth, whilst continuing to make improvements to our processes and systems that will deliver enhanced capability and efficiency to compete in the fast-moving food-on-the-go market.

Our people and values

In 2017 we began the investment in our supply chain that will enable us to deliver growth whilst remaining competitive in terms of the quality and price of our products. As I reported last year this involved taking some difficult decisions, particularly regarding the organisation of our manufacturing and logistics operations. We have worked hard over the last year to carry out the necessary changes in line with our values. There has been much challenge and dialogue but the whole team has worked together with the best interests of the business in mind, and I would like to extend my thanks to all involved.

Greggs has a long history of conducting its business in a responsible manner. We have made great strides in environmental management in recent years and are working with others in our industry to make further improvements. This includes finding solutions to increase the proportion of packaging that can be recycled and ensuring that more of our surplus food is channelled to those who need it most.

We have a strong reputation for sharing our success with the communities where we operate and direct much of this support through the Greggs Foundation, which celebrated its 30th anniversary in 2017. Representatives of the Foundation attended a Board meeting in the year to explain how they work with the Company and other partners. The Foundation makes a real difference to the lives of people in our communities and is given tremendous assistance by staff throughout Greggs. It is a great charity and one that we are very proud to support.

I would like to thank everyone who has worked for Greggs during the past year and contributed to the positive impact that it has had on all of its stakeholders.

The Board

As we announced last year, our Retail Director Raymond Reynolds stepped down from the Board at the AGM in May 2017 but remains a key member of the Company's Operating Board in his new role as Property and Business Development Director. Raymond was a member of the Board for ten years and I would like to thank him for his important contribution throughout that time.

Otherwise the composition of the Board was unchanged in 2017. We continued to spend a significant amount of time overseeing the major programmes of change that support the Company's strategic plan, particularly the investments under way in our internal supply chain. Other reviews included emerging risk areas, including the uncertainties around exiting the European Union, and examination of customer preferences and behaviours and our resulting plans.

The Board also visited Northern Ireland in the year to see for itself the progress that Greggs has made establishing a presence there. It was pleasing to see the same levels of enthusiasm and commitment to doing business the right way that we experience in more established trading areas.

Directors continue to be encouraged to visit different areas of the business and experience it through the eyes of our colleagues and customers.

Dividend increased in line with our progressive policy:

32.3p

Look closer

at our strategy and how it's making a positive impact on **pages 16-23**

This helps to ensure that Non-Executive Directors' contributions to Board discussions are well informed, supporting open and constructive dialogue with the management team. This year I also spent time with an employee panel, a particularly helpful experience given the significant changes that we are making in our supply chain.

Further details of the Board's work are included in the Governance and Committee sections of this Annual Report.

Dividend

Our progressive dividend policy targets an ordinary dividend that is two times covered by earnings, with any further surplus capital being returned to shareholders. Our Finance Director, Richard Hutton, outlines the expected application of the distribution policy in more detail in the financial review.

In line with its progressive dividend policy, the Board intends to recommend at the Annual General Meeting a final dividend of 22.0 pence per share (2016: 21.5 pence), giving a total ordinary dividend for the year of 32.3 pence (2016: 31.0 pence), an increase of 4.2 per cent.

Looking ahead

Greggs continues to demonstrate its resilience in the face of economic uncertainty. This environment seems unlikely to change in the short term as the UK negotiates its exit from the European Union, with the associated risks to consumer confidence and further cost inflation. We are alive to these risks and working hard to mitigate the possible impacts where we can.

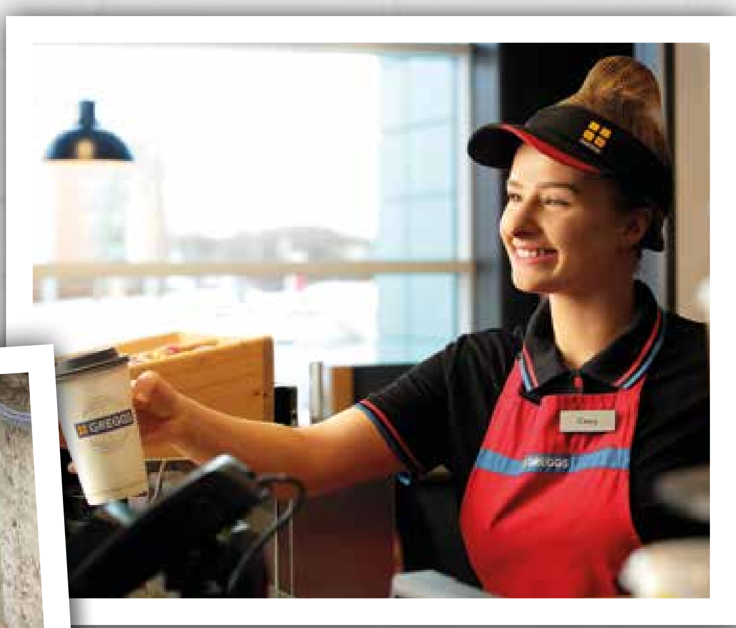
Looking beyond this we remain optimistic about the growth potential for Greggs and are currently investing to support this. The benefits of our major change programmes are beginning to show and will give us much greater capability and capacity for further growth in the years ahead.

Greggs continues to be a strong business with a great team. I am confident that we will make further progress in the year ahead.

Ian Durant
Chairman
27 February 2018

Our vision is to become the customers' favourite for food-on-the-go. Our strategic plan has four pillars and our commitment to having a positive impact on people's lives is embedded across them all.

GREAT TASTING, freshly prepared food



BEST customer experience

We work hard to make sure our range meets our customers' needs and while our classic favourites can't be beaten, there is always something new to excite them. We offer great value at every time of the day and care about where our ingredients come from.

We provide customers with fast and friendly service, fixing issues without a fuss and enjoy making every day a great day by rewarding them for their loyalty. We are taking our modern shops to where our customers want them to be, becoming more and more convenient alongside their busy lives.

positive impact on people's lives

We care about the health of our customers and where our ingredients come from.

We publicly commit to encouraging healthier food-on-the-go choices and are currently working with Public Health England on sugar reduction in response to the Government's commitment to reducing the sugar in our diets. We also signed the Food Foundation's 'Peas Please' pledge. Our Balanced Choice range now accounts for more than £100 million of sales with each item containing fewer than 400 calories and rated green or amber on the nutrition traffic light system.

We're proud of our commitment to purchasing Fairtrade products and take great care to ensure that the animal products used in our recipes are produced and delivered in a way that avoids the abuse or exploitation of animals. Our leadership on farm animal welfare has been acknowledged by the Business Benchmark on Farm Animal Welfare by achieving Tier 2.

Turn to **page 16** to find out more.

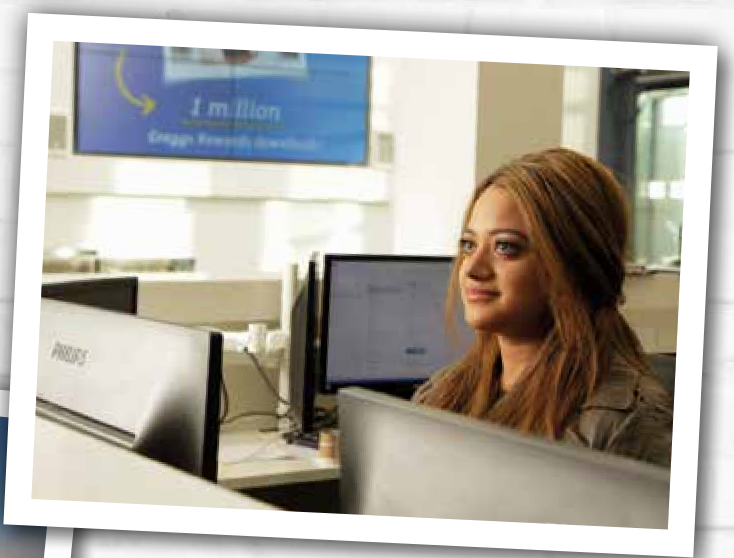
We care about our local communities.

We share our success with the people around us, choosing to help charities that our customers and people care about. That's why we donate at least one per cent of our pre-tax profits to the Greggs Foundation and fundraise all year round for this fantastic charity. Since the charity was founded, 30 years ago, it has given over £26 million to support the local communities that we serve.

Turn to **page 19** to find out more.

COMPETITIVE
supply chain

We stand out from the crowd because we make great quality bakery products ourselves and love to create new things that will excite customers. We are always looking for ways to be more efficient and to support shop growth.



FIRST CLASS
support teams

We have well-trained people providing great service to their colleagues and ultimately our customers, and we are always looking to improve the way we do things by investing in first-class systems.

We care about the environment.

We aim to use energy efficiently and minimise waste because we want to do our bit to reduce the environmental impact from our operations. We continue to reduce our carbon footprint on an annual basis and we are proud holders of the Carbon Trust Standard in recognition of our work on carbon efficiencies. We use the money raised by the carrier bag charge to support the important environmental initiatives delivered by both national organisations such as The Rivers Trust, Keep Britain Tidy and Surfers Against Sewage, as well as grassroots projects.

Turn to **page 18** to find out more.

We care about our people.

We are committed to creating a great place to work. We are strong advocates of equality, diversity and inclusion and have committed to the National Equality Standard programme to drive this agenda forward in the years ahead.

Turn to **page 16** to find out more.

Good growth and further strategic progress

In 2017 we delivered another strong performance in challenging economic circumstances as rising inflation impacted both our own costs and customers' disposable income. At the same time, we continued to make good progress with our business transformation programme, investing in new systems and processes as well as increased capacity and efficiency in our supply chain. We are successfully developing our product offer to meet customer needs and investing in improved customer service, in addition to accelerating growth in shop numbers.

Financial performance
Total sales grew to £960.0 million in 2017, up 7.4 per cent. Within this company-managed shop like-for-like sales grew by 3.7 per cent.

Underlying operating profit, excluding property profits and exceptional items, grew by 4.6 per cent to £81.7 million (2016: £78.1 million). Pre-tax profit (including exceptional items) fell by 4.3 per cent to £71.9 million.

Market background
Economic conditions became more challenging in 2017, with business cost inflation rising significantly due to food ingredient and labour cost increases affecting the entire sector. We were able to leverage our scale and deliver productivity improvements to mitigate some of these pressures but, as expected, saw some year-on-year margin slippage. The market generally saw price inflation returning to the food sector, which resulted in a slowdown in disposable income growth for our customers.

Whilst the food-on-the-go sector remains highly competitive, a further year of unbroken growth in like-for-like sales demonstrates the continued relevance and strength of the Greggs brand.

Delivering our strategy
Greggs is a strong and trusted brand and we draw on our heritage in fresh bakery to compete successfully in the food-on-the-go market. Our purpose is to **make good, freshly prepared food accessible to everyone** with the aim of becoming **the customers' favourite for food-on-the-go**.

We are committed to conducting our business in a responsible manner and, in doing so, to **have a positive impact on people's lives**.

Our strategy has four pillars:

1. Great tasting, freshly prepared food
Greggs products are differentiated by the way we freshly prepare food each day in our shops and by offering outstanding value for good quality, great tasting food-on-the-go.

Total sales up 7.4%:

£960m

Underlying operating profit excluding property profits: £81.7m

↑ 4.6%

Look closer

at how we are being more socially responsible on **pages 16-23**

Making good, freshly prepared food accessible to all income levels is embedded in our core purpose as a brand with outstanding value meal deals setting us apart from the competition. Our product strategy has been to nurture and protect our market-leading reputation in long-established traditional bakery categories adapted to food-on-the-go whilst developing new reasons to visit Greggs by offering quality and value in new growth areas.

Our traditional categories, including fresh baked savoury snacks, freshly prepared sandwiches and delicious sweet bakery treats, remain our best-selling products and are being supported by strong growth in new categories.

Breakfast

Breakfast-on-the-go continues to grow strongly and Greggs has established a leading position by focusing on offering outstanding value with our breakfast meal deal starting at just £2. This remains our fastest-growing part of our trading day and we continue to build increased spend and visit frequency through menu development. Strategically it plays an important role in diversifying demand patterns, making us less reliant on general shopping missions and less sensitive to weather.

Hot drinks

Led by coffee at breakfast, our reputation for quality, value and service in this growth category continues to build, enabling us to extend our drinks menu choice. Hot drinks feature in all of our meal deal offers and it is this outstanding value that differentiates us from our competitors.

Balanced Choice

Growing public concern over obesity is driving increased demand for healthier choices in food-on-the-go. Greggs has a key role to play in encouraging healthier food choices, making good quality freshly prepared food accessible nationwide at outstanding value. Sales of healthier options, including our Balanced Choice range offering fewer than 400 calories and good nutritionals, continue to grow as we extend menu choice and take steps to encourage healthier food choices through disproportionate space allocation and promotion in our shops.

Alongside development of our Balanced Choice range we have adopted a proactive approach to supporting the Government's Childhood Obesity Plan and making significant efforts to reduce salt, fat and sugar in our products and to encourage greater consumption of vegetables in the diet.

Hot food

Hot food is another area of growing customer demand, providing food-on-the-go solutions for all times of the day. Sales of hot sandwiches and hot soup are growing well and provide a platform for further menu development, which we intend will create the opportunity to extend trading in Greggs for longer in the day as our reputation grows.

Good food

Customers increasingly care where their food comes from and, because we make the majority of our food ourselves, we are well placed to deliver food they can trust. Unlike the majority of our competitors, who resell bought-in finished products, we are a large-scale food manufacturer in our own right dealing at source with base ingredients.

We have invested significantly in recent years, gaining independent accreditation for our sourcing and manufacturing credentials and have set out to lead the food-on-the-go sector in eliminating or reducing unnecessary ingredients at the same time as providing full information to allow customers to make informed choices.

Did you know...

Breakfast remains the fastest-growing part of our trading day and we continue to build increased spend and visit frequency through menu development.

> We have a strong pipeline of new shop openings for 2018 and are planning to further accelerate our shop growth, aiming to add in the range of 110-130 net new shops in the year.

Looking ahead

Once again we have a strong pipeline of new product developments planned for the year ahead, strengthening traditional product areas and continuing to build our reputation in new growth categories.

2. Best customer experience

As well as offering great tasting great value food, Greggs is loved by customers because of our fast and friendly service. Working in a Greggs shop is very demanding so we rely on our amazing teams to deliver fast, friendly service under pressure. We continue to invest to simplify our processes and increase productivity to release time for service, with significant gains last year from our new shop ordering process in addition to a best practice programme that we call 'The Greggs Way'.

Our most loyal customers are signing up in rapidly increasing numbers to our award-winning Greggs Rewards scheme. The insight that this provides now includes satisfaction ratings and is helping to inform decision-making throughout the business, helping us to better meet customer needs every day.

Our shops

The key consideration when customers choose where to shop for food-on-the-go is convenience. Being within easy reach for customers when they need us is a prerequisite and we are working hard to increase shop numbers in order to provide easy access everywhere. In 2017 we opened 131 new shops (including 45 franchise units) and closed 41, growing the estate to 1,854 shops trading as at 30 December 2017. We opened our 202nd franchise shop and extended our company-managed shop reach to new territory in Devon, in addition to opening further shops in Northern Ireland.

Refurbishment of our shops slowed down last year as we reached the end of our programme to transform our legacy bakery shops to our food-on-the-go format. We completed 132 refurbishments and franchise partners refurbished a further ten units. We also successfully developed a new Drive Thru format that will allow us to compete effectively in this type of location as we seek new sites.

We have a strong pipeline of new shop openings for 2018 and are planning to further accelerate our shop growth, aiming to add in the range of 110-130 net new shops in the year. In keeping with recent years, the majority of these new shops will increase our presence in travel, leisure and work-centred catchments. At the end of 2017 34 per cent of our shop estate was located in these catchment types.

3. Competitive supply chain

In January 2017 we communicated details of the next phase of our major investment programme focused on increasing logistics capacity and consolidating our manufacturing operations into centres of excellence in order to support shop growth. Once implemented this new supply chain platform will deliver improvements to product quality, our competitiveness and, alongside systems investment, will complete our transformation from traditional bakery to food-on-the-go.

Overall our expansion plans will create thousands of new roles in retail and distribution operations but will result in fewer jobs in manufacturing. Decisions such as these, which impact our people, are always difficult but our teams have shown commitment and professionalism throughout these changes and we have been able to agree a way forward on a basis of voluntary redundancy in the majority of cases.

This investment phase is a complicated programme of work which will take until 2020 to complete. We have made a good start in 2017, completing the transfer of our Edinburgh operations to our Glasgow bakery, which has been

Number of shops trading as at 30 December 2017:

1,854

Number of franchise shops opened in 2017:

45

Proportion of estate now located in travel, leisure and work-centred catchments:

34%

extended to become a centre of excellence for Yum Yum production, and extending our Leeds bakery to create a centre of excellence for cake and muffin manufacturing.

The year ahead will be the peak year for investment in the programme, including the creation of our centre of excellence for doughnuts in our Gosforth Park bakery.

Strategic change of this magnitude is always challenging and I am grateful for the commitment of our teams who have been making these changes whilst maintaining service standards to our shops.

4. First class support teams

We have made further significant progress in the fourth year of our major process and systems investment programme.

In 2017 we successfully deployed our largest ever systems roll out, replacing our traditional shop ordering with a new central forecasting and replenishment process. We have already seen benefits in improved product availability for customers and expect to see savings start to come through in lower wastage figures as we become more experienced with the system's capabilities.

In the second half of the year we successfully deployed pilots in both logistics and manufacturing which will be rolled out alongside our supply chain investment programme.

Scoping work has also begun for the remaining SAP support modules, with human resources, payroll and property management to be implemented in 2018.

Having a positive impact on people's lives

Greggs has a long-standing tradition and reputation as a socially responsible business and as such we want our actions to **have a positive impact on people's lives.** This ambition covers a broad range of stakeholders and in 2017 we made further improvements in all areas and were pleased to achieve an increase to a '4.5 star' rating in the Business in the Community CR index in early 2018.

We encourage healthier food-on-the-go choices

As a leading bakery food-on-the-go retailer we recognise that many of the products we sell are traditional favourites best eaten in moderation. As such we aim to capture as much of the demand for these products as possible in a highly-competitive market but at the same time we are taking steps to encourage customers to see Greggs as a food-on-the-go retailer selling a variety of products, including healthier options.

Our range of Balanced Choice products offers that choice at below 400 calories with good nutritional values and now represents more than £100 million of sales. We are committed to encouraging customers to make healthier food-on-the-go choices and are taking active steps by offering this range in all of our shops nationwide, providing access to all and allocating prominent and disproportionate space to bring these products to customers' attention.

Alongside Balanced Choice we are working on sugar reduction, in addition to the salt and fat reductions seen in recent years. Other initiatives include working with New Cross Hospital in Wolverhampton to redesign the retail format of our shop there and the product range to meet the requirements of NHS guidance. In addition, in 2017 we made the 'Pledge for Veg' in partnership with the Food Foundation, through which we will help customers to increase their vegetable intake through design of our salads, soups and cold sandwiches.

ALL THE TASTE. BALANCED choice ALL UNDER 400 CALORIES.

Did you know...

Our healthier options are increasingly popular – Balanced Choice now accounts for over £100m of sales.

We care where our products come from

All the tea, coffee, hot chocolate, orange juice, apple juice and bananas we sell are certified Fairtrade. We source our prawns and tuna from sustainable sources and have recently maintained our Tier 2 status, despite increased requirements, in the Business Benchmark on Farm Animal Welfare. In our internal supply chain the majority of our manufacturing sites have achieved AA standard on version seven of the BRC Global standard for food safety.

We share our success with the community around us

We continue to share our success with the local communities in which we operate. In 2017 this included increasing the amount of end-of-day food that we donated to good causes by 45 per cent and continuing to support the work of the Greggs Foundation, which celebrated its 30th anniversary in 2017. Through the generous support of Greggs and other donors and fundraisers, including our staff and customers, the Greggs Foundation was able to distribute £3.1 million to support a wide range of initiatives that improve the quality of life in our local communities. These included the award-winning Greggs Breakfast Club programme which, with support from 80 partners, now provides six million free wholesome breakfasts each year to children in over 465 primary schools.

We aim to use energy efficiently and minimise waste

We hold the Carbon Trust Standard in recognition of our work on carbon efficiencies and our Environmental Management System is certificated to ISO 14001. We continue to trial technologies that could help to reduce our carbon footprint even further in the years ahead.

We know that coffee cup recycling is a significant issue and, as a responsible business, we are working hard to reduce our impact on the environment and do our bit to help find a solution. We are currently conducting a trial in 20 shops across Manchester and Liverpool city centres to establish feasibility for in-store recycling of hot drinks cups. This will give us the opportunity to ensure we have a robust and effective process in place before potentially rolling out further. In addition, we sell reusable hot drinks cups in all of our shops and offer customers a 20 pence discount when using a reusable cup. Greggs is also part of the Paper Cup Recycling and Recovery Group and is working with others in the industry towards delivering a long-term, nationwide paper cup recycling solution. We continue to work hard with our suppliers to further improve our hot drink cups to ensure that they are as sustainable as possible.

Reducing the use of plastic in society is another issue where we are trying to play our part. As a vertically-integrated business we have a natural advantage in making most of our products ourselves and controlling the way in which they are distributed. For example, we distribute food to our shops using reusable trays and have separation processes behind the scenes to support recycling. Going forward, we aim to reduce further the amount of plastic involved in our processes.

Community

In 2017, we increased the amount of end-of-day food donations by 45 per cent.

We are committed to creating a great place to work

We pay all of our people more than the National Living Wage, including those under the age of 25. We share ten per cent of our profits with employees and will be sharing a record £9.2 million with our people as a result of our strong performance in 2017.

Our Employee Opinion Survey engagement score has increased by five percentage points over the last two years; 81 per cent of our people say they feel committed to Greggs and to helping us achieve our goals. However, we are not complacent and in the year ahead will be working towards achieving the National Equality Standard as part of our commitment to make Greggs an even better place to work. We are committed to supporting the development of all our colleagues, in particular our talented female colleagues, as we work towards reducing our gender pay gap, which currently stands at 22 per cent. We have made good progress with this in recent years and at Board level have exceeded government guidelines with 43 per cent of our Board being women.

Further details of all of our actions in these areas are described elsewhere in this annual report.

Outlook for 2018

Whilst the UK consumer outlook remains challenging, with industry-wide cost pressures expected to moderate but continue in the year ahead, we are encouraged by the start to the year. Company-managed shop like-for-like sales in the eight weeks to 24 February 2018 have grown by 3.2 per cent, and total sales are up 6.2 per cent.

2018 will be the peak year for investment in our supply chain as we create the platforms for further growth. We also plan to open a record number of new shops as we implement our plan to grow Greggs as a leading food-on-the-go brand.

Roger Whiteside
Chief Executive
27 February 2018

We will be sharing a record £9.2 million with our people, due to our strong performance in 2017:

£9.2m

81% of our people say they feel committed to Greggs:

81%

We are investing in our future...

We care about our people and value their opinion

We work hard to ensure Greggs is a great place to work and that our people feel valued.

Now in its second year, our dedicated employee health and wellness initiative 'Balanced You', which covers four key areas: healthy eating and drinking, keeping active and physically well, healthy social life and good relationships, and positive mental wellbeing, received a Bronze award from Better Health at Work.

Roger Whiteside signed the Time to Change Employer Pledge, illustrating our long-term commitment to raising awareness about the importance of mental health and wellbeing at work and helping to break the culture of silence around mental health.

We are committed to helping improve the health of our customers

We believe in offering our customers choice so, alongside our traditional favourites, you'll see a whole host of healthier options including savouries, sandwiches, salads, porridge and soup. Our Balanced Choice range continues to grow in popularity and now accounts for more than £100 million of sales.

We have made a number of public commitments to highlight that we're serious about customer health. We are currently working with Public Health England on sugar reduction in response to the Government's commitment to reducing the sugar in our diets. We made a 'Pledge for Veg' in partnership with the Food Foundation which will enable us to help customers increase their vegetable intake through our salads, soups and cold sandwiches.

Balanced Choice

Our Balanced Choice range continues to grow and now accounts for over £100m of sales.

Strategy links	Great tasting, freshly prepared food	Best customer experience	Competitive supply chain	First class support teams	
Sustainability links	Customer health	Responsible sourcing	Community	Environment	People

> We are incredibly grateful to Greggs for the delicious support it has provided to our Contact the Elderly groups in Scotland. The unsold food is welcomed by our tea party groups which meet once a month, giving older people who live alone the chance to enjoy a vital lifeline of friendship. Contact the Elderly relies upon the kindness of the local community to make an immeasurable difference to the lives of older people. By supporting our work in this way, Greggs has played an integral role in this wider community kindness.
>
> Janice Kerr, Development Officer at Contact the Elderly

We aim to donate as much unsold food to charity as we can

We have been donating unsold food from shops for many years. Traditionally our bakeries would team up with larger charities who would collect the unsold food from us and distribute to their own network of smaller charities.

While this process is still in place, we have also been working hard to increase the amount of unsold food donated by our shops to local good causes where we can find an outlet. To this end, we ramped up our campaign in 2017. This involved creating a dedicated application page for unsold food donations on the Greggs Foundation website. We also have a sign placed prominently in our shops inviting customers to come forward if they know of a good cause that could benefit from unsold food. The amount of unsold food we donate has increased by 45 per cent in the last 12 months.

We care where our ingredients come from

We only buy free-range whole eggs and we are proud to have received Compassion in World Farming's Good Egg award. Our tuna is caught by pole and line fishing or by using methods without any Fish Aggregating Devices and all of our prawns are from MSC certified sustainable sources. We only use palm-derived fats and oils in our ingredients, that are certified as sustainable. We measure our progress against the Business Benchmark on Farm Animal Welfare and we're proud to have moved our rating from Tier 5 to Tier 2 over the last three years.

We're committed to making a positive difference through our commitment to purchasing Fairtrade products. All the tea, coffee, hot chocolate, sugar sachets, orange juice, apple juice, peppermint tea, green tea and bananas we sell are certified Fairtrade. We were proud to once again be a high-street partner for 'Fairtrade Fortnight' in 2018.

Our customers can **TRUST** what our food is made of

BBFAW Business Benchmark on Farm Animal Welfare

POLE & LINE

GOOD EGG AWARD
COMPASSION in world farming

We care about the environment

We have been successful over several years in reducing the carbon footprint of our operations and, whilst this programme continues, we are now turning our attention towards specific problems such as product packaging. We have the advantage of selling most of our products freshly prepared in shop and in that way require less packaging than factory food competitors. Nevertheless we are committed to further reducing the use of plastic in our processes.

Alongside this, money raised by the carrier bag charge is being used to support local community environmental projects through the Greggs Foundation and environmental initiatives delivered by national organisations such as The Rivers Trust, Keep Britain Tidy and Surfers Against Sewage.

We're committed to reducing our annual carbon footprint and achieved a 15% reduction in intensity in 2017. We're proud holders of the Carbon Trust Standard in recognition of our work on carbon efficiencies.

A reduction of:

15%

> Surfers Against Sewage is delighted to work with Greggs to grow the impact of our work to tackle litter and plastic waste in communities right around the UK. Together we are inspiring and educating thousands of school children to take action to protect the beaches, parks and playgrounds they love, and mobilising thousands of beach clean volunteers in every part of the country. Together we really are making a difference to community spaces.

Hugo Tagholm, CEO, Surfers Against Sewage

We are proud of the Greggs Foundation

In 2017, the Greggs Foundation celebrated its 30th birthday. In that time, through the provision of its five main grant programmes, North East core funding grant, local community projects fund grant, environmental grant, hardship fund grant and breakfast clubs, the Foundation has donated over £26 million to help improve the quality of life of people in local communities.

GREGGS FOUNDATION

In 2017, we opened 48 new breakfast clubs, taking the total number to 454. This means that we are helping to ensure that 28,900 children a day (that's circa 6 million breakfasts a year!) are getting the best possible start to their school day with a nutritious breakfast.

450+ Breakfast Clubs

Strategy links	Great tasting, freshly prepared food	Best customer experience	Competitive supply chain	First class support teams	
Sustainability links	Customer health	Responsible sourcing	Community	Environment	People

We support those in need through charitable giving

The Greggs Foundation isn't the only charity we support. We also fundraise for a number of other charities which our people and customers feel passionate about, including BBC Children in Need, the Poppy Appeal and the Disasters Emergency Committee (DEC).

We are also proud supporters of the North of England Children's Cancer Research charity and are the main sponsor of its annual Children's Cancer Run. To date, the run has raised over £30 million to fund research into improving recovery rates. In 2017, we celebrated our 11th anniversary supporting BBC Children in Need. During that time, our team members and customers have helped raise over £8.5 million for the charity – something we are all incredibly proud of!

*We want our business to have a **positive impact** on people's lives*

Understanding and rewarding our loyal customers through Greggs Rewards

Our award-winning loyalty scheme, Greggs Rewards, has had a very successful year and has provided numerous benefits to both our customers and our shop teams. The app has grown in popularity across the UK throughout the year. We surpassed the one million customer downloads milestone along with achieving the No 1 slot in the App Store after we helped ease students back into university life with a free Greggs lunch. We rewarded our customers with a wide variety of their favourite products via the app, whilst launching new technology that enables them to instantly rate our products and service after shopping with us. This information will prove invaluable in helping our shop teams to deliver a great Greggs customer experience every day.

We are taking Greggs to new areas

Convenience is key when it comes to customer choice and, as the internet changes the way we shop and our food-on-the go eating habits, we have been opening new shops to take Greggs to where our customers want us to be. In 2017, we accelerated our shop growth, opening 131 new shops, including 45 franchise shops focused on travel locations, reaching a significant milestone as we celebrated our 200th franchise shop opening. We opened a new Drive Thru format in Irlam, Manchester and we took Greggs to new territory in Devon whilst opening further shops in Northern Ireland.

New shops opened in 2017:

131

Franchise shops in travel locations:

45

We are proud to fuel the nation at breakfast time

Breakfast remains our fastest growing part of the day and we have established a leading position by offering our customers outstanding value at just £2 for a breakfast deal – an offer we are proud to hold for the eighth year running. We continue to build on our reputation for high quality, great tasting, good value coffee and increased our hot drinks menu choice with the introduction of flavoured lattes towards the end of the year.

We are
OPEN
when our customers want us to be, including from 7am and on Sundays

Strategy links	Great tasting, freshly prepared food	Best customer experience	Competitive supply chain	First class support teams	
Sustainability links	Customer health	Responsible sourcing	Community	Environment	People

We are making great progress in transforming our supply chain

In 2017, we made great progress in our £100 million supply chain investment programme to increase logistics capacity, consolidate our manufacturing operations into centres of excellence to improve product quality and support shop growth, allowing us to compete more effectively in the food-on-the-go market. We completed the transfer of our operations in Edinburgh to our Glasgow bakery which we have extended to create a centre of excellence for Yum Yum production. We also extended our Leeds bakery to create a centre of excellence for cake and muffin production.

£100m
to reshape
our ***supply chain*** to
support shop growth

We are proud of our bakery heritage

We are proud of our heritage and our long-established traditional bakery categories such as freshly baked savoury snacks, freshly prepared sandwiches and delicious sweet bakery treats remain our best-selling products. Greggs iconic sausage roll remains our number one bestseller.

We have been making
GREAT QUALITY
bakery products
OURSELVES
for over 75 years

We love to excite our customers with new reasons to visit Greggs

In 2017, we delivered an exciting variety of new products including additions to our hot food range with sales of our hot sandwiches and gluten-free soup growing well. More products will feature in 2018 as we create new reasons to visit us for food-on-the-go, at all times of the day.

Strategy links	Great tasting, freshly prepared food	Best customer experience	Competitive supply chain	First class support teams	
Sustainability links	Customer health	Responsible sourcing	Community	Environment	People

We believe in equality, diversity and inclusion

At Greggs we are committed to treating our people equally and ensuring that everyone – no matter what their background, race, ethnicity or gender – has an opportunity to develop. We are signatories to the National Equality Standard and are committed to supporting the development of all our colleagues, in particular our talented female colleagues, as we work towards reducing our gender pay gap. We have made good progress with this in recent years and at Board level have exceeded Government guidelines with 43 per cent of our Board being women.

81% =

Our Employee Opinion Survey engagement score has increased by two percentage points over the last two years. 81 per cent of our people say they feel committed to Greggs and to helping us achieve our goals.

We are investing to improve our customer service

As well as our great tasting, great value food, our customers love our fast and friendly service. We have been investing to further improve our customer service by putting simpler processes in place which will help to increase the productivity of our amazing teams.

21,000

well trained colleagues provide great service to their customers

Another year of good financial performance

In 2017 we delivered another good financial performance, mitigating the impact of increased cost inflation whilst managing a significant investment programme. The costs of this programme, along with continued growth in our estate, were all self-funded from our strong cash flow, whilst we also increased dividends to shareholders.

	2017 £m	2016 £m
Revenue	**960.0**	894.2
Operating profit (excluding exceptional items and property profits)	**81.7**	78.1
Property profits	**0.5**	2.2
Operating profit (excluding exceptional items)	**82.2**	80.3
Operating margin (excluding exceptional items	**8.6%**	9.0%
Finance expense	**(0.4)**	(0.0)
Profit before taxation (excluding exceptional items)	**81.8**	80.3
Exceptional items	**(9.9)**	(5.2)
Profit before taxation	**71.9**	75.1

Sales

Total Group sales for the 52 weeks ended 30 December 2017 were £960.0 million (2016: £894.2 million), an increase of 7.4 per cent. Sales in company-managed shops with more than one calendar year's trading history ('like-for-like') grew by 3.7 per cent to £817.5 million (2016: £788.5 million). We also saw like-for-like and total sales growth in our franchised shop estate.

Profit

Operating profit before exceptional items was £82.2 million (2016: £80.3 million). This included a £0.5 million contribution from property disposals (2016: £2.2 million). Excluding the impact of property profits from both years, the underlying growth in operating profit was 4.6 per cent. The result reflects strong sales growth in a year when, as expected, we experienced higher than historical cost inflation.

Pre-tax profit before exceptional items was £81.8 million (2016: £80.3 million). Including exceptional items, pre-tax profit was £71.9 million (2016: £75.1 million).

Exceptional items

In 2016 we commenced the first phase of our major investment programme to reshape our internal supply chain, and this has continued throughout 2017. Activity in 2017 included the relocation of Yum Yum manufacturing to our Glasgow site, and expansion of that site to consolidate our distribution activity in Scotland following the closure in May of our Edinburgh bakery. In addition, we consolidated manufacturing of small cakes and muffins at our Leeds bakery and relocated our pizza manufacturing to our Manchester site.

Total Group sales for the 52 weeks ended 30 December 2017:

£960m

Like-for-like sales in company-managed shops grew by:

3.7%

Look closer

at the KPIs we use to monitor the performance of the Group against our strategy on **page 28**

Including related exceptional property gains, the total exceptional charge in relation to this programme was £10.1 million in 2017 (2016: £6.4 million). After adjustments made for the reversal of prior year exceptional costs the total exceptional charge for the year was £9.9 million (2016: £5.2 million), comprised as follows:

	2017 £m	2016 £m
Supply chain restructuring:		
– redundancy costs	**7.4**	4.1
– transfer of operations	**1.3**	0.4
– property-related	**0.5**	–
Total cash costs of supply chain restructuring	**9.2**	4.5
– depreciation and asset write-offs	**1.3**	1.9
– property disposal gains	**(0.4)**	–
Net supply chain restructuring charge	**10.1**	6.4
Restructuring of support functions	**–**	0.4
Release of prior years' exceptional items:		
– dilapidations	**–**	(0.5)
– other property provisions	**(0.2)**	(0.9)
– restructuring of support functions	**–**	(0.2)
Total exceptional items	**9.9**	**5.2**

We continue to expect the total exceptional cash costs of our supply chain investment programme, excluding any associated property disposal gains, to be in the region of £25.0 million. Our expectation of non-cash costs (accelerated depreciation and asset write-offs) associated with the programme has reduced to £5.0 million (previously £7.0 million). Total charges so far have totalled £16.5 million and we expect a further £6.0 million in 2018.

A property gain of £0.4 million resulting from the disposal of our Edinburgh site was treated as exceptional in the year because the site closure came as a result of the overall supply chain restructuring programme. We have now exchanged contracts for the conditional disposal of our vacant Twickenham site. Should this progress to completion, any resultant profit will also be treated as an exceptional gain. We continue to expect the total proceeds arising from supply chain site disposals to be in line with those anticipated in our investment plan.

In 2017 the total cash impact of exceptional items was a net outflow of £1.9 million (2016: £3.8 million cash outflow). We expect the 2018 cash outflow in respect of exceptional items to be c.£12.5 million.

Operating margin

Operating margin before finance expenses and exceptional items was 8.6 per cent (2016: 9.0 per cent). Including exceptional items, the operating margin was 7.5 per cent (2016: 8.4 per cent).

Gross margin before exceptional items was stable year-on-year at 63.7 per cent (2016: 63.7 per cent). We experienced high levels of food input cost inflation for most of the year but the impact of this on gross margin was partly mitigated by lower costs in our supply chain as a result of site closures. Including exceptional items gross margin was 62.7 per cent (2016: 63.2 per cent).

In an inflationary environment savings from our actions to make the business simpler and more efficient have become even more important. In 2017 we delivered savings of £9.7 million (2016: £7.1 million). Benefits were achieved through procurement initiatives and as a result of improvements across our retail and supply chain operations. Cost inflation will continue to be a headwind in 2018 and we will redouble our efforts to mitigate this impact through our efforts to make the business more efficient.

As noted above, in 2017 we recognised gains on the disposal of freehold properties totalling £0.5 million (2016: £2.2 million). These were in addition to the property gain on disposal of our Edinburgh site, which was treated as exceptional.

Financing charges

There was a net financing expense of £0.4 million in the year (2016: £0.0 million) reflecting the funding position of the defined benefit pension scheme, partially offset by interest received and exchange gains. In the year ahead we expect to incur a financing expense of around £0.2 million relating to the net liability of the pension scheme at the start of the year.

Did you know…

In 2017, we relocated our Yum Yum manufacturing to our Glasgow site. In addition, we consolidated manufacturing of cakes and muffins to our Leeds bakery and relocated our pizza manufacturing to Manchester.

> The performance of new shops opened in 2017 was encouraging, with sales above the level expected at the time of investment.

Taxation

The Company has a simple corporate structure, carries out its business entirely in the UK and all taxes are paid there. We aim to act with integrity and transparency in respect of our taxation obligations.

Excluding the effect of exceptional items the Group's underlying effective tax rate was 20.7 per cent (2016: 22.5 per cent). The overall tax rate for the year including exceptional items was 20.9 per cent (2016: 22.8 per cent). The year-on-year reduction in the effective rate primarily reflected reductions in the headline rate of corporation tax and settlement of prior year tax computations.

We expect the effective rate for 2018 to be around 21.25 per cent and that the effective rate going forward will continue to be around two per cent above the headline corporation tax rate. This is principally due to disallowed expenditure such as depreciation on non-tax-deductible qualifying properties and costs of acquisition of new shops.

Earnings per share

Diluted earnings per share before exceptional items were 63.5 pence (2016: 60.8 pence), an increase of 4.4 per cent. Basic earnings per share before exceptional items were 64.5 pence (2016: 62.0 pence). Including exceptional items diluted earnings per share were 55.7 pence (2016: 56.7 pence) and basic earnings per share were 56.6 pence (2016: 57.8 pence).

Dividend

The Board recommends a final ordinary dividend of 22.0 pence per share (2016: 21.5 pence). Together with the interim dividend of 10.3 pence (2016: 9.5 pence) paid in October 2017, this makes a total ordinary dividend for the year of 32.3 pence (2016: 31.0 pence). This is covered two times by diluted earnings per share before exceptional items in line with our progressive dividend policy. Our policy on special distributions is outlined below under 'Cash flow and capital structure'.

Subject to the approval of shareholders at the Annual General Meeting, the final dividend will be paid on 18 May 2018 to shareholders on the register on 20 April 2018.

Balance sheet

Capital expenditure

We invested a total of £70.4 million (2016: £80.4 million) on capital expenditure in the business during 2017, less than we had originally expected due to later phasing of a number of new shop openings and supply chain projects. The total included £40.8 million for development and maintenance of our retail estate and £4.4 million in respect of IT infrastructure. Investment in our supply chain of £23.4 million included works at our Glasgow and Leeds bakeries to consolidate production of Yum Yums, small cakes and muffins, and preparations for further such projects in Manchester and Newcastle in the year ahead. Depreciation and amortisation in the year was £53.5 million (2016: £45.6 million).

2018 will be a year of record investment in the business as we reach the peak of our capital expenditure on consolidation of our manufacturing activities. This aspect of our investment programme is expected to require around £45 million of capital expenditure in 2018. We will also continue to grow and diversify our shop estate through the opening of c.90 new company-managed shops, with further openings funded by franchise partners. Overall we plan capital expenditure of around £95 million in 2018.

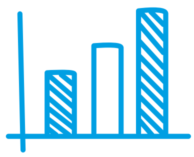
There will be further investment to complete our supply chain programme across 2019 and 2020 and the bulk of the work to modernise our IT systems should also complete in this timeframe. Assuming that we invest to support continued growth of c.100 net shops per year then we expect capital expenditure of c.£95 million in 2019 reducing to c.£80 million in 2020.

Amount invested on capital expenditure in the business during 2017:

£70.4m

Return on capital employed (excluding exceptionals) for 2017:

26.9%



Working capital

Group net current liabilities decreased to £21.4 million at the end of 2017 (2016: £28.8 million). We held higher cash balances at the end of 2017 as a result of delays in the phasing of capital expenditure, as noted above. Inventory levels rose by £2.8 million and receivables rose by £2.7 million in the year. The £6.5 million increase in current liabilities largely reflected a higher level of restructuring provisions resulting from the changes made to our supply chain in the year.

Pension scheme liability

The net liability shown on the balance sheet for the Company's closed defined benefit pension scheme reduced to £7.5 million (2016: £22.9 million). The assets of the scheme performed strongly in 2017, reducing the liability by £8.8 million. In addition, in order to reflect scheme experience, an allowance has now been included in the valuation for expected commutation of pensions. This reduced the liability by £7.0 million. The scheme underwent a full actuarial revaluation in 2017, which showed no current requirement for Company contributions.

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 we target an average cash return on invested capital of 25 per cent, with a hurdle rate of 22.5 per cent, over an average investment cycle of seven years. Other investments are appraised using discounted cash flow analysis.

The performance of new shops opened in 2017 was encouraging, with sales above the level expected at the time of investment. New shops opened in 2016 are maturing well and are now above our target for return on investment. We continue to see particularly strong returns on the relocation of shops within their existing catchments.

We delivered an overall return on capital employed (ROCE) for 2017 of 26.9 per cent excluding exceptional items (2016: 28.1 per cent). The reduction in ROCE was expected given the level of supply chain investment in the year.

Cash flow and capital structure

The net cash inflow from operating activities in the year was £116.9 million (2016: £117.6 million). At the end of the year the Group had net cash and cash equivalents of £54.5 million (2016: £46.0 million).

Having taken into account the views of shareholders the Board continues to believe that it is appropriate to maintain a target year-end net cash position of around £40 million to allow for seasonality in our working capital cycle and to protect the interests of all creditors.

Looking forward we intend to maintain our progressive dividend policy and, to the extent that we have material surplus capital within the Group, the Board would expect to return capital to shareholders, likely by way of special dividends. In 2018 we expect that cash generated will be required to meet the Group's investment plans whilst paying ordinary dividends in line with our policy.

Richard Hutton
Finance Director
27 February 2018

Did you know…

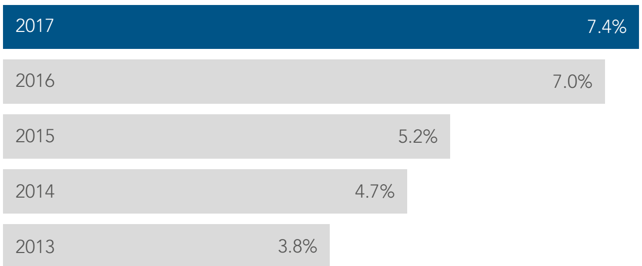
2018 will be a year of record investment in the business as we reach the peak of our capital expenditure on consolidation of our manufacturing activities.

We use eight key financial performance indicators (KPIs) to monitor the performance of the Group against our strategy

The definition of these KPIs and our performance over the last five years is detailed below. All of the non-GAAP measures detailed can be calculated from the GAAP measures included in the annual accounts or are detailed on page 106. Commentary on these KPIs is contained within the financial review:

Total sales growth:

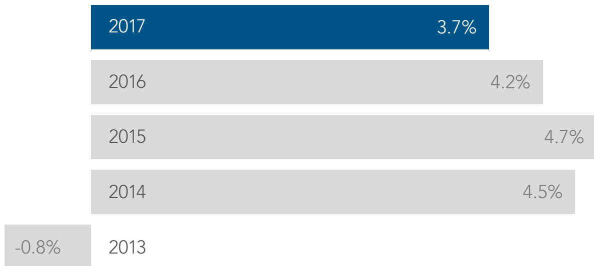
7.4%



The percentage year-on-year change in total sales for the Group, adjusted for the impact of a 53-week year in 2014.

Like-for-like sales growth:

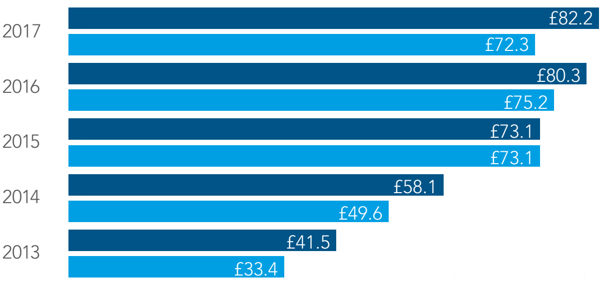
3.7%



Compares year-on-year cash sales in our company-managed shops, excluding any shops which opened, relocated or closed in the current or prior year. Like-for-like sales growth includes selling price inflation and excludes VAT. The impact of shop refurbishment is included in like-for-like sales growth. The calculation of these figures for the current and prior year can be found on page 106.

Operating profit:

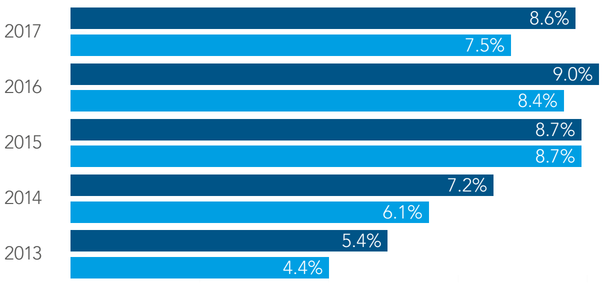
£82.2 million



Reflects the performance of the Group before financing and taxation impacts and the underlying measure excludes any exceptional items arising in the year.

Operating margin:

8.6%



Shows the operating profit of the Group as a percentage of turnover. The underlying measure excludes any exceptional items arising in the year.

Look closer

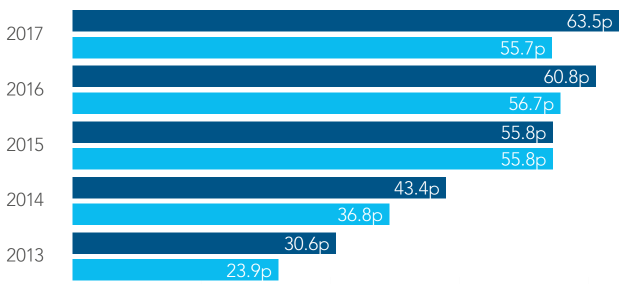
at how we measure our progress with non-financial KPIs overleaf

Graph keys

Underlying   Including exceptional items

Diluted earnings per share (pence):

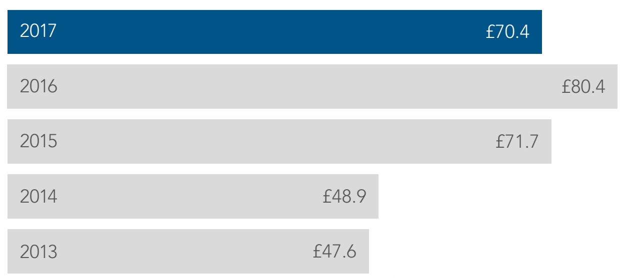
63.5p



Calculated by dividing profit attributable to shareholders by the average number of dilutive outstanding shares. The underlying measure excludes any exceptional items arising in the year.

Capital expenditure:

£70.4 million



The total amount incurred in the year on investment in fixed assets.

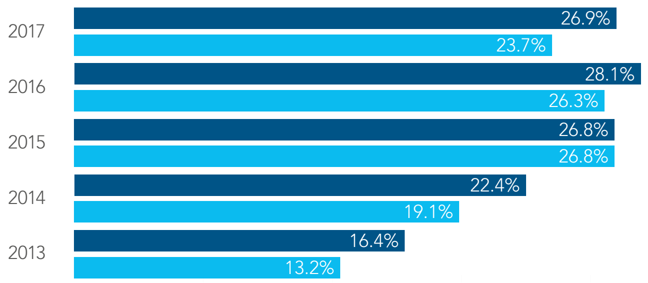
Net cash inflow from operating activities:

£116.9 million

Operating profit adjusted for the impact of non-cash items and working capital movements.

Return on capital employed (ROCE):

26.9%



Calculated by dividing profit before tax by the average total assets less current liabilities for the year. The underlying measure excludes any exceptional items arising in the year. The calculation of these figures for the current and prior year can be found on page 106.

We continue to integrate social responsibility into our business strategy

We continue to report our targets as non-financial KPIs under the five areas of focus. All of our targets and commitments are delivered under the guidance and ownership of Operating Board Champions – as illustrated below – with overall ownership by the Chief Executive. Our Social Responsibility Steering Group is convened by our Company Secretary and meets on a quarterly basis to review progress.

KPI	Our commitment	2017 targets
Customer health	We encourage healthier food-on-the-go choices	– Increase sales of Balanced Choice by at least £10 million – Implement our Clean Label plan across our savoury and bread products
Responsible sourcing	We care about where our ingredients come from	– Engage with the external supply chain to meet our Modern Slavery Policy Obligations – Develop a five-year strategy for cage-free egg ingredients
Community	We share our success with the people around us	– Work with our partners to further extend our Breakfast Club scheme to 440 schools – Support the Greggs Foundation to donate more than £2 million through our fundraising activity – Evaluate and improve our Environmental Grants Programme
Environment	We aim to use energy efficiently and minimise waste	– Continue to develop our Environmental Management System to maintain our ISO14001 accreditation across all our operations – Continue to review our operational activities to support a reduction of our carbon footprint intensity by a further 1% – Increase the amount of unsold food donations by a further 50% (based on 2016 results)
People	We are committed to creating a great place to work	– Drive activities to further improve employee engagement through flexible working – Achieve third-party accreditation for Balanced You, our health and wellbeing programme – Successfully deliver our year one action plan to achieve National Equality Standard accreditation in 2019 – Continue to drive health and safety engagement to reduce reportable accidents per hours worked in retail by 5% – Continue to drive health and safety engagement to reduce reportable accidents per hours worked in our supply chain by 10% – Further develop and deliver our online development tool across the business to enhance development opportunities for our people

1 We continue to drive our Balanced Choice range and were pleased to increase our sales by a further £2 million in 2017.
2 Our operational teams worked extremely hard in identifying new opportunities for unsold food donations in 2017 finding a large number of local community organisations to work with resulting in a 45% increase in the amount of food donations. We will continue to place our efforts in working with local community groups to find new routes for redistribution as well as further investigating how we could work with any national organisations to further increase donations wherever we can.

Status*	2018 targets	Champion	United Nations Sustainable Development Goals
☹[1] ☺	– Increase sales of healthier choices by 10% (based on 2017 results) – Reduce sugar by 5% in line with the Government's Childhood Obesity Plan (based on 2015)	Commercial Director	3 GOOD HEALTH AND WELL-BEING
☺ ☺	– Maintain our BBFAW Tier 2 Standard in relation to Animal Welfare – All of our retail paper and board packaging to be from accredited sustainable materials	Commercial Director	12 RESPONSIBLE CONSUMPTION AND PRODUCTION
☺ ☺ ☺	– Work with Greggs Foundation to maximise its impact – Launch a national initiative in Breakfast Club schools to promote good food choices	Finance Director	11 SUSTAINABLE CITIES AND COMMUNITIES
☺ ☺ ☹[2]	– Reduce the amount of single-use plastics used within our stores and increase the level of segregation and recycling for key packaging types – Further reduce our carbon footprint intensity by 2% – Increase redistribution of unsold food by 10% (compared to 2017 result)	Property and Business Development Director	13 CLIMATE ACTION
☺ ☺ ☺ ☺ ☹[3] ☺	– Complete the relaunch of our 'culture and values' programme – Successfully deliver our 2-year action plan following our National Equality Standard Audit in 2017 – Continue to drive health and safety engagement to reduce reportable incidents across our operations by 10%	Retail and People Director	10 REDUCED INEQUALITIES

3 Although we missed our stretching target, we were proud to see that we reduced the number of reported incidents across our supply chain again by over 5%. Health and Safety remains a priority across our supply chain, especially in light of the transformation work we are in the process of completing within the estate.

* More information about our 2017 achievements is available overleaf.

Carbon footprint

Our net carbon footprint for the 2017 financial year was 110,350 tonnes of carbon dioxide and equivalent gases (CO_2e), with an intensity of 115.61 tonnes of CO_2e per £million turnover. This represents a 15.04 per cent improvement on our 2016 result.

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 from 1 January 2017 to 30 December 2017.

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

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

The 2017 emissions are verified by the Carbon Trust as part of the review of our carbon footprint.

Carbon Trust Standard

We measure our direct carbon footprint and in 2016 we were again accredited to hold the Carbon Trust Standard in recognition of our work on carbon efficiencies. In addition, we disclose our GHG emissions through the Carbon Disclosure Project (CDP).

CARBON TRUST STANDARD
REDUCING CO2 YEAR ON YEAR

Gender of workforce

We are proud of our reputation for bringing the best talent through the business regardless of gender and that 71 per cent of our total workforce is female, almost half of our management population is female and, of the seven Board posts, three are held by women.

	Female	Male	Total
Board	3	4	7
Senior Managers	58	78	136
Other managers	276	281	557
All employees	15,408	6,326	21,734

Percentage of women on the Board:

43%

Percentage of employees who are female:

71%

		Current reporting year 2017 (tonnes of CO_2e)	Comparison year 2016 (tonnes of CO_2e)
Scope 1	Combustion of fuel & operations of facilities	**32,460**	33,010
Scope 1	Refrigerants	**7,222**	6,041
Scope 2	Electricity purchased for own use (including PV generated electricity)	**70,966**	82,153*
GROSS emissions	Total Scope 1+2 CO_2e emissions	**110,648**	121,204
NET emissions	Net emissions excluding PV	**110,350**	120,824
NET intensity measure	Tonnes of CO_2e per £million of turnover adjusted to account for use of renewable energy	**115.61**	136.08

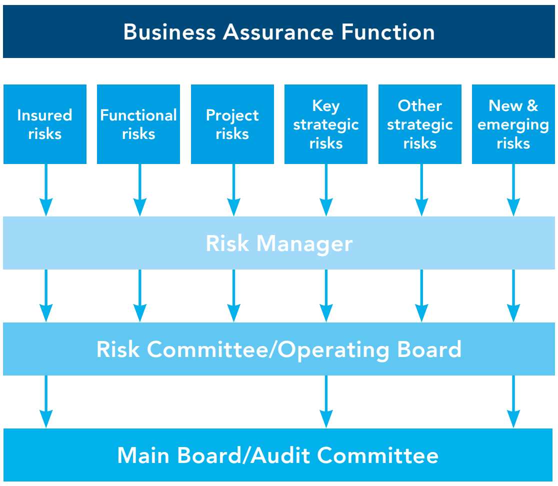
* Emissions for 2016 have been adjusted as refrigerant emissions in 2016 were over reported.

The Board has ultimate responsibility for ensuring that risks are managed appropriately

Our risk management approach

We have well-established risk management processes embedded within the business, which enable us to identify, evaluate, record and monitor significant risks. Taking an appropriate level of risk is an inherent part of any business, but in doing so we assess the likelihood and impact of each risk arising.

The diagram below sets out our approach and shows the various information flows.



The responsibilities of key participants within the risk management process are summarised below:

Board of Directors/Audit Committee

- Ultimate responsibility for ensuring risks are managed appropriately;
- full annual review of the risk management process;
- regular consideration of key strategic risks and new and emerging risks; and
- robust annual assessment of principal risks as set out on the following page.

Risk Committee/Operating Board

- Quarterly detailed discussion of significant risks;
- understanding the business' exposure to risk;
- supporting the implementation of the Company's risk management strategy; and
- escalating significant matters to Main Board, via the Audit Committee.

Risk Manager

- Maintaining the corporate risk register;
- supporting the Risk Committee to operate effectively; and
- ensuring adequate insurance is in place, as determined by the Main Board.

Business Assurance function

- Providing independent internal audit coverage of the business, reporting findings to Audit Committee);
- oversight of the risk process; and
- support to the whistleblowing process, which allows staff to raise matters of concern.

Principal risks and uncertainties

These risks are those which the Directors consider to present the most significant threat to the business' future development or performance.

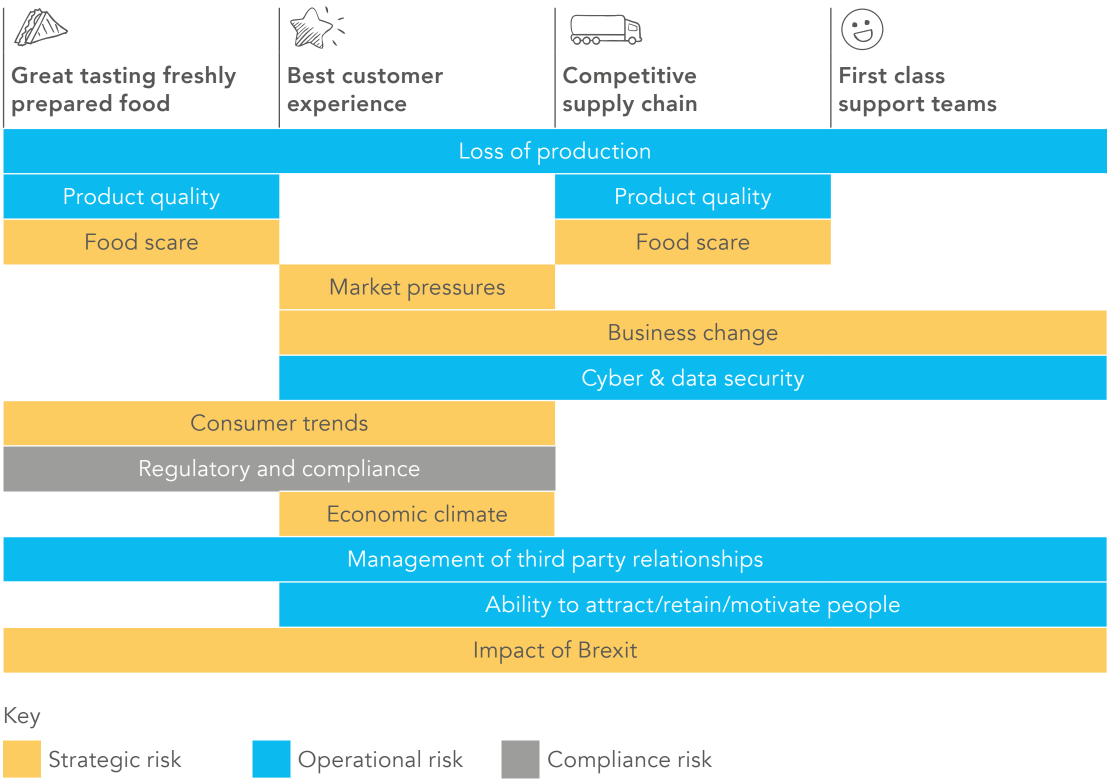
Additional risks have been disclosed this year compared with previous statements. This is in response to guidance from the Financial Reporting Council, along with a peer review of the disclosures of other companies operating in the retail environment, which has encouraged reporting of a broader range of risks to enhance stakeholder understanding. As a result, we have reported on five additional risks in the current disclosure. All risks reported in last year's statement remain relevant.

Where appropriate, the impact of these risks occurring has been considered when developing the scenarios tested as part of the financial viability statement as set out opposite.

Additional risks and uncertainties, not presently known to management or deemed less material currently, may also have an adverse effect on the business. Further, the exposure to each risk will evolve as we take mitigating actions, or as new risks emerge. The risks set out below provide a snapshot of the position at the date of the annual report.

The risks are described along with the strategic pillars to which they are linked, and the movement in net risk level during the year. They are ranked based on their perceived impact and likelihood, taking into account the effectiveness of existing controls (i.e. the net risk faced by the business).

Our principal risks can be mapped to our strategy and categorised as follows:



Viability statement

The Directors have assessed the Company's prospects and viability taking into account its current position, plans and principal risks. The Company remains cash-generative and has no debt other than normal trading liabilities to creditors and the obligations arising under commercial leases and its defined benefit pension scheme. In assessing the Company's prospects the Board has taken into account the following:

– The Company's strong financial position and cash-generative nature.
– The continued growth of out-of-home eating and the alignment of the Company's offer to this growing market.
– The potential for further growth in existing markets and investment plans to support this.
– The maintenance of a competitive, differentiated offer to customers.
– Controls over and mitigations of the occurrence of principal risks and uncertainties.

In assessing the Company's viability the Board has considered potential scenarios that have been envisaged to reflect the occurrence of the principal risks that the business faces. These include threats to its operations, such as a loss of production capacity, and the occurrence of risks affecting confidence in the Greggs brand.

In carrying out its assessment the Board has reviewed the three-year operational and financial plan to 2020. This is the period over which the Board reviews management's business planning and therefore the Board believes that this is the most appropriate timeframe over which to make the viability assessment.

The principal risks to which the Company is exposed ultimately affect the ability of its shops to trade successfully, either through an interruption to supply or because of a loss of confidence in the Greggs brand. A significant loss of sales would be particularly damaging given the Company's vertical integration in that the cost of the internal supply chain cannot be reduced quickly.

In order to stress-test the Company's financial resilience three separate scenarios were created to simulate the impact arising from the occurrence of the following principal risks:

1. A brand-damaging food scare resulting in a significant one-year sales reduction followed by gradual recovery of confidence. In making assumptions the Directors considered real examples of companies in the food sector that had experienced such issues.
2. The impact of a ten per cent annual sales decline as a result of changing shopping habits or consumer trends.
3. Temporary loss of production capacity for the Company's iconic pastry savoury products and the consequences for liquidity as capacity is restored.

In each case the Directors reviewed the mitigating actions that would be necessary to protect the Company's liquidity. These included:

– Temporary suspension of dividend payments in order to preserve cash for operational use, including the restoration of customer confidence in the Greggs brand.
– Restriction of capital investment to cover only essential maintenance of infrastructure, taking into account capital commitments to major investment programmes.
– Addition of temporary financing facilities, taking into account the Company's borrowing capacity.
– Drawing on the Company's insurance arrangements on the occurrence of an insured risk.

The scenarios tested represent more extreme circumstances than the Company has ever experienced. Based on the results of the analysis, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three-year period of their detailed assessment.

Description	
Loss of production	As we move towards more centralised production and national distribution, any interruption to production may have a significant impact on our customers.
Product quality and safety	Due to our vertically-integrated structure, and the fact that we freshly prepare food every day in our retail premises, we may have a greater exposure to food safety risk than many of our competitors.
Food scare	We may suffer a loss of trade due to customer confidence being impacted by an external food scare beyond our control.
Market pressures	Changing customer habits such as the increasing popularity of online shopping impact on our ability to attract footfall into our shops.
Business change	We continue to implement our strategy of transformation into a food-on-the-go retailer, requiring restructuring, capital investment and new systems implementation. Expected timelines or savings may not be met, and there may be disruption to our customers.
Cyber and data security	As with all businesses, our data and systems are exposed to external threats such as hackers or viruses. These could lead to data breaches, or disruption to our operation. The new General Data Protection Regulation (GDPR) provides a rigorous control framework, with severe penalties for non-compliance.
Consumer trends	As customers become more concerned about nutrition, health and the provenance of food, our traditional products may be perceived as less attractive. The publication of the Government's 25 year Environmental Strategy and growing concern over the environment may give rise to the introduction of additional levies and taxes.
Regulatory and compliance	Following the implementation of new Sentencing Council guidelines, large financial penalties could be imposed on the business for breaches of Food Safety or Health & Safety legislation. Due to the number of stores we operate, and the volume of customer transactions we handle on a daily basis, we may be exposed to isolated incidents which fall below our expected standards and may expose us to prosecution.
Economic climate	Increased uncertainty about the economy and the outcome of Brexit impacts on consumer confidence. Wider economic uncertainty and job insecurity may cause consumers to be more cautious with their discretionary spending.
Management of third party relationships	As our reliance on third parties for services, ingredients or business support increases, we become more exposed to their business interruption risks. This could impact on our ability to produce, distribute or sell our products.
Ability to attract/retain/ motivate people	Market forces and particularly the impact of Brexit may result in a shortage of available workforce. This may be compounded by the relative complexity of our shop operations compared with other retailers.
Impact of Brexit	In addition to the risks relating to the economy and resources highlighted above, there is uncertainty regarding the possibility of changes to trading arrangements, customs agreement, tariffs etc. This may give rise to increased costs.

Key mitigations	Change	Links to strategy
All of our supply sites have contingency plans in place. We simulate scenarios and test our recovery processes periodically. We have identified alternative supply sources for key ingredients and products. Our property insurers conduct annual site inspections, helping us to protect our facilities.	No change	
Procedures are in place throughout our supply sites and shops to ensure that food safety is maintained. Compliance is monitored both internally and by regulatory bodies.	No change	
Most of the products on sale in our shops are made by our staff in our bakeries. Routine checks are carried out to confirm the integrity of our products and ingredients.	No change	
We are progressively diversifying the market segments in which we trade, reducing the reliance on shoppers. This includes opening shops in travel and workplace locations as well as developing our food offer to match the needs of customers outside of general shopping hours.	No change	
We phase our change activity to avoid affecting the Company as a whole wherever possible. Timelines and forecasts are clearly defined and agreed. Progress against these is reported on a regular basis to our Operating Board.	No change	
We actively monitor our networks and systems, including conducting regular penetration testing. Our approach to information security is closely monitored by the Board. We are working to ensure compliance with the GDPR requirements, including data mapping, policy development and staff training.	No change	
We continue to work on improving the nutrition of our traditional products, including a commitment to reduce sugar in line with the Government's Childhood Obesity Strategy. Our "Balanced Choice" range provides healthier options and is growing well. We are working hard to reduce our impact on the environment, including reviewing our packaging designs, introducing a reusable hot drinks cup and continuing to reduce our carbon intensity.	No change	
We have a system of controls and monitoring in place, and our teams are provided with extensive training on safe processes and procedures. Our audit processes confirm whether proper procedures are being followed.	New	
As a leading value brand, we take steps to control our costs whilst maintaining the quality of our customer offer. We closely monitor our competitiveness and are focused on remaining great value for money.	New	
Our own contingency arrangements consider the implications of key systems or ingredients being unavailable. All third parties are vetted prior to us engaging with them. Key supplier relationships are managed by our central procurement team.	New	
We offer attractive remuneration and benefit packages to reward our teams, along with training and development opportunities. We carry out an annual opinion survey to ensure high levels of employee engagement. We are working to streamline our shop processes and simplify operations for our teams. As part of our business change programme, we are investing in improved recruitment processes.	New	
Developments continue to be monitored, with regular review by our Operating Board. Contingency arrangements are being considered.	New	




Ian Durant Chairman	**Roger Whiteside** Chief Executive	**Richard Hutton FCA** Finance Director	**Allison Kirkby** Non-Executive Director
Biography			
Ian has a background in international finance 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 SeaContainers 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. He held a number of roles within the Company's finance function before joining the Board as Finance Director in 2006.	Allison is currently President and CEO of Tele 2, a major European telecoms company. Prior to Tele 2, where she joined as CFO, Allison spent two decades in the FMCG sector at Procter 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.
Appointed since			
5 October 2011	17 March 2008 (Non-Executive Director until 3 February 2013)	13 March 2006	30 January 2013
Independent			
Yes	Not applicable	Not applicable	Yes
External appointments			
Chairman of Capital and Counties PLC. Chairman of DFS Furniture plc.	Member of the Women's Business Council. Non-Executive Director of Card Factory plc.	Trustee of Greggs Foundation. Trustee Director of Business in the Community. Trustee of The Alnwick Garden Trust.	Director of Secure Value Consulting Limited. Board member of Reach for Change.
Committee membership			
Chair of Nominations Committee	Not applicable	Not applicable	Chair of Audit Committee; Remuneration and Nominations Committee member

Board diversity

Our Board brings a balance of relevant backgrounds and gender to their discussions.

Helena Ganczakowski
Non-Executive Director

Biography

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.

Appointed since

2 January 2014

Independent

Yes

External appointments

Non-Executive Director of Croda International Plc and also owner, manager of consulting business working with companies ranging from start-up businesses to FTSE 100 constituents, helping them to develop and implement strategies.

Committee membership

Audit, Remuneration and Nominations Committee member

Peter McPhillips
Non-Executive Director

Biography

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.

Appointed since

10 March 2014

Independent

Yes

External appointments

Non-Executive Director of Browns Food Group. Non-Executive Director of Jackson's Bakery Limited.

Committee membership

Audit, Remuneration and Nominations Committee member

Sandra Turner
Non-Executive and Senior Independent Director

Biography

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 worked in sales and marketing roles for Unilever and Wilkinson Sword.

Appointed since

1 May 2014

Independent

Yes

External appointments

Non-Executive Director of Carpetright plc, McBride plc and Huhtämaki OYJ.

Committee membership

Chair of Remuneration Committee; Audit and Nominations Committee member

Jonathan Jowett
Company Secretary and General Counsel

Biography

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

Appointed since

12 May 2010

Independent

Not applicable

External appointments

Member of the British Retail Consortium Policy Board; Chair of the Trustees of the Percy Hedley Foundation.

Non-Executive Director of Newcastle Hospitals NHS Foundation Trust.

Committee membership

Secretary to the Board and all its Committees

4:3

Board diversity, by gender

M	F
4	3

6.3

Board diversity, by tenure (years) Average

3-6 years	>7 years
4.5	10.8

We have enjoyed a period of stability on the Board

Dear Shareholder,
I am pleased to introduce our governance report, which follows on pages 41 to 47.

In 2017, the executive team undertook an extensive consultation exercise to explain to our people in more detail what impact our £100 million investment in our supply chain could have on their working lives. This included shift changes, new contractual terms in some instances, different and reduced product ranges as we move to create centres of excellence and, regrettably, some job losses by reason of redundancy, as we come to the end of our programme in 2019.

Following our Board evaluation at the beginning of the year, and in anticipation of the planned consultation, we decided that we would take the opportunity to find new ways of engaging with our people and listening to their views during a time of significant change.

As a first step, in the Autumn Peter McPhillips and I attended a meeting with the Greggs Negotiating Committee, which is made up of elected union officials from supply chain and retail. Having explained our role as Non-Executive Directors, we were asked questions about Board decision-making and the application of Greggs' values, the independence of Non-Executive Directors and potential conflicts of interest, and the importance of ensuring that the impact of decisions on people's lives is always given proper consideration.

As part of our Board deliberations, we always apply the Company's values in making strategic decisions whilst recognising the necessity for judgement calls to protect our competitiveness and future growth. At a time when the Government is consulting on changes to the Corporate Governance Code, our experience is that there is great value to be had from ensuring that people most affected by Board decisions have the opportunity to make their views known directly to Non-Executive Directors.

The corporate governance statement, together with the reports of the Audit and Remuneration Committees on pages 48 to 69, explain how our governance framework operates and how we oversee both the performance of the Company and also the general understanding and application of the values for which Greggs is known. Leadership and culture are central to this, supported by the programme to improve systems and processes, together with regular discussion regarding risks and risk management. The Board is accountable to shareholders for governance and I have continued to meet with some of our largest shareholders. In 2017, I was accompanied by Helena Ganczakowski at those sessions, ensuring that our shareholders have access to a broader range of our Non-Executive Directors.

All of our Directors will be seeking re-election at our AGM to be held on 9 May 2018. We have enjoyed a period of stability on the Board and this reflects the continued enthusiasm of a high-performing management team working well with Non-Executive Directors who bring a balance of relevant backgrounds and gender to Board discussions. We were delighted to have been recognised in the Hampton-Alexander Review, published in November 2017, as a top ten FTSE 250 Company for Women on Boards and in Leadership.

I look forward to welcoming as many shareholders as possible to our AGM.

Ian Durant
Chairman
27 February 2018

GOVERNANCE REPORT

The Company is subject to the UK Corporate Governance Code issued by the Financial Reporting Council. The edition of the Code issued in April 2016 applied throughout the 2017 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 in 2017 and will be relevant to the Company for the 2018 financial year.

The Company has been a constituent of the FTSE 250 Index throughout 2017, and maintains a Premium listing on the London Stock Exchange.

The Board confirms that it was compliant with the Governance Code throughout the year, and 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

The Chairman chairs the Nominations Committee whose primary function is to consider 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 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 Chief Executive are fully discussed and critically examined prior to adoption.

During the year, the Chairman and the Non-Executive Directors individually undertook a number of visits and meetings as part of the day-to-day running of the business, in order to ensure that they were sufficiently well-versed in operations to facilitate strong support and challenge. Such visits included meetings with key suppliers, production centre visits and getting out into our own shops and those of our competitors, accompanied by members of the Operating Board and senior management.

Additionally, the Board met in Northern Ireland during the year and was able to experience first hand the directly-run and franchised shops that have been operating since we first entered the province in 2016.

The Board schedules six meetings per year and meets on an ad hoc basis as required.

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.

Meeting attendance

	Main Board	Audit Committee	Remuneration Committee	Nominations Committee
Number of meetings held	**6**	**4**	**2**	**1**
Ian Durant	6	–	–	1
Roger Whiteside	6	–	–	–
Richard Hutton	6	–	–	–
Helena Ganczakowski	6	4	2	1
Allison Kirkby	6	4	2	1
Peter McPhillips	6	4	2	1
Sandra Turner	6	4	2	1
Raymond Reynolds*	3	–	–	–

* Raymond Reynolds stepped down from the Board following the AGM in May 2017.

Did you know…

We were recognised in the Hampton-Alexander Review, published in November 2017, as a top ten FTSE 250 company for women on Boards and in Leadership.

All Directors are invited to attend the Audit Committee and the Chief Executive attends the Remuneration and Nomination Committees. The business conducted at Committee meetings is reported by the respective Chair at subsequent Board meetings.

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

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.

In a change from previous practice, and following Raymond Reynolds' stepping down from the Board, it was agreed that additional operating information would be made available to Non-Executive Directors in the expectation that this would add further colour to the debate and discussion at Board meetings. Consequently, Board papers now include a summary of activity by each Operating Board director, together with a fuller and more detailed report attached should Non-Executive Directors wish to explore further any matter being reported. Members of the Operating Board are invited to attend Board meetings on a rolling rota in order to participate in the Board's discussion on business performance and key issues. This process also affords senior managers the opportunity to bring matters to the attention of the Board. During the year, the Board received regular updates including:

- Developments on the two main strategic projects, being the implementation of SAP, and the £100 million investment in our supply chain.
- Business performance in Northern Ireland.
- The implications of "Brexit".
- The Gender Pay Gap report.
- Sentencing Council guidelines in relation to regulatory convictions.
- Customer insight, competitor activity, marketing and category plans.
- Wage negotiations and people issues.
- Food safety and health and safety.

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.

Diversity

The Board believes it is in the best interests of the Company to bring more women through to the top levels of the organisation and, as a result of this belief, a programme launched in 2012 to encourage women to strive for the most senior positions in the business. Our gender reporting is now contained on page 32 of the strategic report. The progress that the Board has made in its diversity policy was recognised by the Hampton-Alexander Review published in November 2017, when we were recognised as a top ten FTSE 250 Company for Women on Boards and in Leadership.

Succession, and development

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. The Chief Executive meets with the Chairman and the Non-Executive Directors on a regular basis 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.

Later in 2018, the Board will be conducting its second externally-facilitated evaluation. In anticipation of this more detailed review, for 2017 the Board conducted its own evaluation which consisted of a question-based review which resulted in a series of themes that were debated at a Board meeting. The emerging themes included a review of our risk disclosures, looking forward on Board Succession planning, harvesting best practice from Non-Executive Director experience on other boards, and considering how to engage better with stakeholders in meeting Companies Act (S172) obligations. Consequently, it was agreed that specific actions should include a Non-Executive Director attending a Risk Committee meeting and the creation of a stakeholder engagement data map for subsequent review by the Board.

As a key part of the ongoing evaluation process, the Chairman also meets with the Non-Executive Directors at least annually without the Executive Directors present, and also has one-to-one sessions with every member of the Board. The Senior Independent Director meets the Non-Executive Directors annually without the Chairman present to appraise the Chairman's performance.

Election and re-election of Directors

The Board has resolved that, in line with Governance Code provision B.7.1, all Directors will be subject to annual re-election by shareholders. Following recommendation by the Nominations Committee, all of the Non-Executive Directors who will offer themselves for 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 Non-Executive Directors, chaired by the Senior Independent Director, have also specifically considered the Chairman's commitment to the Company in light of his Chairmanships of two other FTSE 250 Companies. The Non-Executive Directors had noted that the Chairman had stepped down from the Boards of two other FTSE 250 companies in September 2016. The review included an assessment of his ongoing engagement with the business, evidenced by his numerous shop, manufacturing and distribution centre visits and meeting with the Greggs Negotiating Committee (see page 40), his one off meetings with members of the Operating Board and his ongoing dialogue with ex-employees, key stakeholders, industry experts and face-to-face meetings with shareholders. The Non-Executive Directors also considered the potential risk and mitigants of the Chairman not being available to the Greggs Board in a situation which might demand more of his time and attention.

The conclusion drawn was that the Chairman evidences a very high level of commitment to Greggs plc which is not affected by his roles with other companies, and the Non-Executive Directors would encourage all shareholders to support his re-appointment as Chairman.

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 generally 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 four times in the year, and a fuller report on its activities is set out on pages 48 to 53.

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 detailed within the Directors' remuneration report which is set out on pages 54 to 69 of this annual report. Shareholders approved the current Remuneration Policy at the AGM held on 19 May 2017, and this is included on pages 56 and 57 for the sake of expediency. The Chairman's fees are reviewed annually and set by the Executive Directors, following the general policy of everyone in the Company receiving the same basic level of pay award.

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

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

The Nominations Committee did not seek external consultancy support during 2017.

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

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 on pages 33 to 37.

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.

During the year the Chairman met with two institutional shareholders with significant shareholdings, Standard Life Aberdeen plc, and MFS Investment Management, currently the largest shareholder. On both occasions the Chairman was accompanied by Helena Ganczakowski. The Chairman adopts an ongoing policy of arranging to meet with major shareholders, and the Non-Executive Directors are encouraged to attend meetings and events which provide them with the opportunity to engage generally with the investment community.

During the last quarter of 2016, the Remuneration Committee chair had engaged with institutional shareholders representing over 50 per cent of the issued share capital, as part of the consultation on the proposed Remuneration Policy which was put to shareholders at the AGM in May 2017. Following that engagement, the Board was pleased to receive the support of 94% of voting shareholders for the revised Remuneration Policy.

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 and shareholders in order to maintain an understanding of market perceptions of the Company. The Board reviews at each meeting an analysis of the share register, noting all significant changes.

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. 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. In 2017, information stalls were set up at the entrance to the meeting informing shareholders of the Company's progress on key social responsibility topics.

At each 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. All resolutions were strongly supported by shareholders, and were determined by poll, in accordance with best practice.

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

The Company provides on its website 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.

Substantial shareholdings

At 27 February 2018 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
MFS Investment Management	5,314,697	5.25%
Standard Life Aberdeen plc	5,036,488	4.98%
BlackRock Inc.	not notified	<5%

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 corporate.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 has been undertaken by the 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 03 to 37, 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 70. A statement of auditor's responsibilities is given in the report of the auditor on page 75.

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 81). The Board's "viability statement" made in accordance with Code provision C.2.2; can be found on page 35.

Policies

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 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. All graded managers, and members of the procurement department, are required to make an annual confirmation of their compliance with the policy.

Whistle-blowing

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. Any matters raised are treated in confidence and an independent review will be undertaken where it 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.

Political donations

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

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.

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 1 January 2017 and 30 December 2017 are set out in the Directors' remuneration report on page 68. Details of the Directors' share options are also set out in the Directors' remuneration report on pages 66 and 67.

In accordance with provision B.7.1 of the Governance Code, all Directors will retire from the Board at the AGM. Mr. Raymond Reynolds stepped down from the Board following the AGM held on 19 May 2017, although he remains a member of the Operating Board.

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 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 it 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 41 to 45 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 non-financial KPIs on page 32.

Authority to purchase shares

At the AGM on 19 May 2017, 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 2 pence each.

That authority had not been used as at 30 December 2017.

The authority remains in force until the conclusion of the AGM in 2018 or 8 August 2018, whichever is the earlier. It is the Board's intention to seek approval at the 2018 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 2 pence each. As at 27 February 2018, 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 the 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 or her;
- 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 or her 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 CA 2006 or if any shareholder has failed to reply to a duly served notice requiring him or her to provide a written statement stating he or she is the beneficial owner of the 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 or her 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 or she 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 reasonable require to show the right of the transferor to make the transfer. In respect of shares held in uncertificated form the Directors may only refuse to register transfers in accordance with the Uncertificated Securities Regulations 2001 (as amended from time to time);
- Under the Company's code on dealings in securities in the Company, persons discharging managerial responsibilities and some other senior executives may in certain circumstances be restricted as to when they can transfer shares in the Company;
- There are no agreements between shareholders known to the Company which may result in restrictions on the transfer of shares or on voting rights;
- Details of significant holders of the Company shares are set out on page 44;
- 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 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 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 limits on these powers;
- The Company is not party to any significant agreements which take effect, alter or terminate upon a change in 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 54 to 69. 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 being 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 people should, as far as possible, be identical to that of other employees.

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

Significant relationships

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

By order of the Board

Jonathan D Jowett
Company Secretary
Greggs plc (CRN 502851)
27 February 2018

Greggs House
Quorum Business Park
Benton Lane
Newcastle upon Tyne
NE12 8BU

The Committee plays an important part in the governance of the Company

Introduction

I am pleased to introduce the report of the Audit Committee for 2017.

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.

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 continues to keep its activities under review in the light of regulatory developments and the emergence of best practice. Key topics for consideration in 2018 will be the Company's ongoing supply chain investment programme and the associated exceptional charges, together with the new General Data Protection Regulation which comes into effect during the year. Cyber security matters continue to be a priority for the Committee, as do the Company's preparations for the implementation of IFRS 16 Leasing at the start of 2019.

Overall I am satisfied that the activities of the Committee enable it to gain a good understanding of the key matters impacting the Company during the year, 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
27 February 2018

Composition

The Audit Committee is comprised of the following:

Allison Kirkby (Chair)
Helena Ganczakowski
Peter McPhillips
Sandra Turner

It is the practice of the Company for all independent Non-Executive Directors to serve as members of the Audit Committee. There have been no changes in the composition of the Committee during 2017.

Training is provided for any 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 38 and 39 detail the Committee members' previous experience and demonstrate that they have experience individually in a range of disciplines relevant to Greggs' business. The Board considers that Allison Kirkby has recent and relevant financial experience.

Role and responsibilities

The Terms of Reference of the Committee can be accessed at:
http://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 position and 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 four times during the year. Details of Committee members' attendance is given on page 41.

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 2017 made contact several times with, an audit partner independent of the partner responsible for the audit.

Financial reporting

In 2017 the Audit Committee reviewed the 2016 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 52 weeks ended 30 December 2017 are as follows:

Area of focus	Action taken
Understanding and treatment of exceptional items The accounts include exceptional items in the current year. Costs of £9,862,000 were incurred in 2017 (2016: £5,177,000) relating to the restructuring of supply chain operations. £7,458,000 of this is in respect of redundancy costs (2016: £3,961,000) with the balance relating to asset-related costs and other contractual obligations. Asset-related costs comprise acceleration of depreciation for assets with an expected reduction in useful life as a result of the restructuring and the cost of disposing of assets which are no longer required.	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 from the decision, announced in March 2016, to invest in and reshape the Company's supply chain in order to support future growth. The Committee ensured that consistent principles were established (and agreed with the external auditor) early in the process and that reporting was 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 2017 and also changes in circumstance in respect of provisions relating to events from prior years, ensuring that the annual report as a whole presents a balanced view, including the presentation of GAAP and non-GAAP measures. It concluded that separate disclosure should be made of items of expenditure incurred in 2017 related to the supply chain investment programme.
Dilapidations Dilapidation provisions have been made based on the future expected repair costs required to restore the Group's leased buildings to their fair condition at the end of their respective lease terms, where it is considered a reliable estimate can be made. The balance held in respect of dilapidation provisions at the end of the year was £2,956,000 (2016: £3,243,000).	The Committee reviewed management's assessment of the need for dilapidation provisions, together with the movement in the provision during the year, and concluded that the principles applied were appropriate.
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 rates and mortality rates. There was a change in one of the assumptions used during the year in order to more closely align them with those used by the scheme actuary when conducting the triennial valuation. Allowance has now been made for the commutation of pensions by members on retirement based on the actual scheme experience. The net liability held in relation to defined benefit pension schemes at the end of 2017 was £7,506,000 (2016: £22,851,000).	Pension scheme liabilities are assessed on behalf of the Company by independent actuaries. The Committee assessed the underlying assumptions and concluded that they were appropriate and also discussed the appropriateness of the assumptions with the external auditor.
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; – ensuring that the disclosure of non-underlying items is balanced; – 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 alongside its own review of the annual report and accounts when making its recommendation to the Board regarding fair, balanced and understandable.
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 it to determine whether the going concern basis of accounting remained appropriate. The Committee reviewed and challenged the assumptions used and concluded that the Board is able to make the going concern statement on page 45 of the Directors' report.
Viability Revisions to the UK Corporate Governance Code in 2015 introduced a new requirement for the Board to consider the period over which they are able to conclude that the Company will remain viable, having taken into account severe but plausible risks and risk combinations. On account of this being a relatively new requirement, the Committee considered this to be a significant reporting matter.	The Committee reviewed the process undertaken by management to support and allow the Directors to assess the Group's long-term prospects and make its viability statement. The Committee considered and provided input into the determination of which of the Group's principal risks and combinations thereof might have an impact on the Group's liquidity and solvency. The Committee reviewed the results of management's scenario modelling and the stress testing of these models. The Committee reviewed and challenged the assumptions used and concluded that the Board is able to make the viability statement on page 35 of the strategic report.

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 the Listing Rules.

Two areas which were previously considered to be significant – accounting for onerous leases and shop asset impairment – are no longer included above as the amounts provided have been utilised to such an extent that they are no longer material. As a result the Committee does not consider the judgements required to be significant to the accounts.

External audit

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 in line with the Financial Reporting Council's 'Practice aid for audit committees' (May 2015). It considered the results of external quality inspections by the Audit Quality Inspection Team on other KPMG clients. 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

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 following a competitive tender, 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.

The current audit partner is Mick Thompson who has held the role since 2013. He retires by rotation after the conclusion of the 2017 audit and will be replaced by Nick Plumb.

The Audit Committee confirms that the Company complies with the Statutory Audit Services for Large Companies Market Investigation (Mandatory use of Competitive Tender Process and Audit Committee Responsibilities) Order 2014.

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. It monitors the level and type of non-audit fees on an annual basis and ensures that the overall level of non-audit fees remains in line with current ethical guidance governing the accounting profession.

The Audit Committee favours a presumption that non-audit work will be awarded to a firm other than the audit firm unless there is a good reason to use the auditor. An annual base plan for non-audit fees paid to the external auditor is agreed in advance by the Audit Committee. Expenditure in accordance with this plan can then be committed without further referral to the Audit Committee. Expenditure that is not included in the agreed plan is subject to strict authority limits and is reviewed by the Committee. During 2017, in response to the implementation of the EC Audit Directive and Regulation in the UK, new providers were appointed in respect of taxation services that had previously been provided by KPMG.

All use of the external auditor for non-audit work must be reported to and approved by the Committee. In circumstances where non-audit fees are significant relative to the audit fee an explanation would be provided in the subsequent Audit Committee Report. In addition, the Audit Committee ensures that the external auditor has its own policies and is subject to professional standards designed to safeguard their independence as auditor.

The Audit Committee has reviewed whether, and is satisfied that, the Company's auditor, KPMG LLP, continues to be objective and independent of the Company. KPMG LLP did perform non-audit services during 2017 for the Group but the Audit Committee is satisfied that its objectivity was not impaired by such work.

In 2017, the charge to the income statement in respect of non-audit fees paid to KPMG LLP and related KPMG operations amounted to £17,000 (which is 11 per cent of the audit fee for the year) and related to audit of turnover statements required by shop landlords and pension scheme audits.

Reappointment of auditor

In accordance with Section 489 of the Companies Act 2006, a resolution for the reappointment 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 subsequent review by the Audit Committee.

Whistle-blowing

The Company's whistle-blowing policy is made available to all employees through the intranet, as well as via posters displayed across the business. This gives information regarding how to raise a concern in strict confidence. Two reports were made during the year, relating to inappropriate management behaviour and product theft. Both events were reported directly to the Chair of the Audit Committee by telephone or email. The case of low level theft related to our franchise operation, and this was referred to the relevant franchise partner for action. The issue concerning management behaviour was investigated internally, and appropriate action taken by senior management to address the matter. The outcome of both matters was reported to the Board during the year.

The Company's whistle-blowing policy was last subject to a detailed review in 2016 and updated to align with best practice. The Audit Committee is confident that it remains appropriate and fit for purpose.

Risk management process

The Audit Committee undertakes a review of the risk management process in the Group at least annually, as set out in its terms of reference. The process is detailed on page 33, and has been reviewed by the Committee to confirm its appropriateness in light of the risks identified. The key areas that the Committee has specifically considered are as follows:

Area of focus	Action taken
New and emerging risks	The Audit Committee considers areas of new and emerging risk which have been identified by the business via the Risk Committee. It assesses these for completeness, and raises any other areas which it believes should be documented within the Company's risk register.
Cyber risk and information security	The Company's approach to cyber risk and information security is considered at every Audit Committee meeting, by receiving a regular update on activity. During the year, this has included consideration of the Company's preparation for the General Data Protection Regulation (GDPR). The Committee received a training session from the external auditor to enhance their understanding of the new requirements.
Business transformation	The Committee has received reports on progress with the Company's transformation programme, including supply chain investment and SAP implementation.
Review of principal risks and uncertainties	The proposed disclosure of principal risks and uncertainties was prepared by the Risk Committee, based on its discussions during the year. The statement was then considered and approved by the Audit Committee.

Internal audit

The work of the internal audit function is set out in more detail within the principal risks and uncertainties statement on pages 33 to 37 of this annual report. The team is led by the Head of Business Assurance, supported by the Risk Manager, the Information Security & Compliance Manager and 14 auditors. The majority of the audit team work across the retail estate to provide assurance over the Company's retail operations. We have strengthened our resource allocated to information security with a temporary appointment, to assist with GDPR preparation.

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. This review includes assessing the delivery of the audit plan, considering the function's output across the year, and evaluating customer feedback received by the team.

Committee effectiveness

Each year the Committee reviews critically its own performance, assisted by consideration of a series of questions, and considers where improvements can be made.

Allison Kirkby
Chair of the Audit Committee
27 February 2018

The Committee has continued to ensure that executive remuneration is closely aligned to the delivery of Greggs' business strategy

Dear shareholders,

I am pleased to present our remuneration report for 2017.

We have continued to be as transparent as possible with this year's remuneration report, aiming for a report that is easy to read, follow and understand.

The report is made up of **three** key sections:

- This annual **Chair's letter.**
- Our **remuneration policy report**, which sets out a summary of the Directors' remuneration policy for all Directors of Greggs. This policy was formally agreed at our AGM held on 19 May 2017.
- Our **annual remuneration report**, split into two sections that set out:
  - how our remuneration policy will be implemented in 2018; and
  - how our remuneration policy was implemented in 2017. This is an audited section of the report outlining the remuneration of the Company's Executive and Non-Executive Directors during the 52 weeks ended 30 December 2017.

The annual remuneration report is subject to an advisory shareholder vote at the 2018 AGM.

Remuneration policy

We are in year one of a three-year policy, and in developing this policy the Committee was very aware that executive remuneration continues to be a key focus for shareholders, as well as being a topic that is regularly discussed in the public domain. Throughout 2017 the Committee has continued to assess the effectiveness of overall levels of remuneration and continues to review emerging market practice and best practice expectations in line with the business strategy. The Committee has taken into account a number of reference points, both internal and external. Independent advice was also sought, where appropriate, from the Committee's advisors.

Remuneration structure and philosophy

The existing remuneration framework consists of the following elements:

- fixed pay – base salary, pension and benefits; and
- variable pay – annual bonus (paid in both cash and deferred shares) and performance share plan (PSP).

The Committee believes that the current structure works well and remains fit-for-purpose. It is simple and consistent, with pay outcomes dependent upon performance linked to our business strategy. It ensures a significant proportion of pay is delivered in shares to provide alignment with investors and incorporates a number of best practice features, including a two-year post-vesting holding period for PSP awards.

Since announcing our five-year strategic plan in 2013, transforming the business from a traditional bakery into a modern food-on-the-go-retailer, we have delivered excellent operational and financial performance. In the four years since 2013 our company-managed like-for-like sales have grown by 17.1 per cent and pre-tax profit (excluding exceptional items) has increased by 98 per cent, reflecting sales growth combined with significant savings arising from structural changes and investment in better processes and systems. This is reflected in strong EPS growth (averaging 21 per cent p.a. since 2013).

Policy report review

Our **remuneration policy report** sets out our policy for the three years from 2017 and was put to a binding vote of shareholders at the AGM on 19 May 2017. This policy was approved with a majority vote of 93.91 per cent. Our related amendment to the PSP rules was also approved with a majority vote of 97.14 per cent.

Approval of this policy has ensured that we have strengthened the alignment between Executive Directors and shareholders and kept the team focused on long-term, sustainable value creation for our shareholders. We have reviewed the policy again and are comfortable that it remains appropriate to ensure the team running our business are incentivised going forwards, whilst at the same time ensuring the policy is flexible to remain applicable over the remaining two years of the policy period. Accordingly there are no changes to our policy proposed in 2018.

Performance in 2017 and incentive payments

Despite challenging conditions, including significant cost headwinds, a busy change agenda and the continued major investment in line with our strategic plan, the Company has delivered another year of solid performance. The business has performed well against the stretching financial targets as described in the financial review on pages 24 to 27. Against the targets set at the beginning of the year for the annual bonus the profit element resulted in 22.54 per cent of the maximum being achieved with 12.53 per cent of the maximum sales performance being achieved. Despite significant cost challenges facing the business a strong control on costs resulted in 9.25 per cent of the maximum being achieved.

There was a stronger performance in the strategic objectives that were set and we made excellent progress with our technology and supply chain change programme. This resulted in 100 per cent bonus payment against these strategic elements. Overall annual bonuses representing 80.4 per cent (out of a maximum possible of 125 per cent) and 57.9 per cent (out of a maximum possible of 90 per cent) of salary will be payable to the Chief Executive and Finance Director, respectively. Any element of the bonus earned above 50 per cent of the maximum will be paid in shares and will be subject to a two-year holding period.

Under the Performance Share Plan, awards made in March 2015 are due to vest in March 2018. These awards are based on EPS growth over the three years to 30 December 2017 and average annual ROCE over the three-year performance period 2015 to 2017. EPS has grown by 12.86 per cent and our average annual ROCE was 27.3 per cent, which meant that the performance condition was achieved in full. For the purpose of calculating total remuneration payable we have therefore assumed full vesting of the award.

The Committee is very comfortable that this performance justifies a full vesting level for this award.

Approach for 2018

The salary increase for both the Chief Executive and Finance Director was in line with that of the base increase for the workforce generally and was 2.8 per cent. Increases to salaries and Non-Executive Directors' fees took effect from 1 January 2018.

As part of the Committee's ongoing review of best practice and a review of the market, the target-setting process for the annual bonus has been reviewed. The Committee believes that the nature of the current measures (profit, sales and strategic objectives) remains appropriate and no changes are proposed to the measures or the mix. Financial targets for these measures for the 2018 annual bonus have been set in line with the financial plan for the business for the year and the rolling five-year strategic plan, and continue to be stretching. We will also continue to require any bonus earned over 50 per cent of the maximum to be payable in shares and be subject to a two-year holding period. The Committee has reviewed the percentage pay out for on target performance for the profit and sales element of the bonus and has decided to move this to 50 per cent (increased from 30 per cent in 2017). This change recognises the challenging nature of the targets we have set for 2018 and, more generally, we have a record of setting very demanding targets in the context of prior year performance and market expectations. We believe this has been demonstrated by the 2017 bonus outcomes as discussed above, where outcomes were well below the maximum, notwithstanding Greggs' strong performance during the year. We have also been cognisant of wider market practice, where a 50 per cent payout for target performance is the norm (even in bonus schemes where the maximum opportunity is greater than at Greggs). The 50 per cent level remains lower than the 60 per cent level which we applied prior to 2017. Threshold performance will remain at ten per cent pay out. Due to the commercial sensitivity of the 2018 bonus targets they are not disclosed within this report, but will be disclosed retrospectively in next year's report.

Under the PSP the Committee has considered the performance conditions and has determined that EPS and ROCE should continue to apply with an equal weighting given to each. The Committee has ensured that targets have been set for the year ahead which reflect the strategic plan and business outlook over the performance period. Consequently, the ROCE ranges have been increased to ensure that they remain appropriately stretching in light of our business strategy, without encouraging undue risk taking.

Concluding remarks

I hope that you will find this report transparent, clear and informative. The Committee has continued to ensure that executive remuneration is closely aligned to the delivery of Greggs' business strategy as well as remaining relevant to market and best practice.

I look forward to receiving your continued support at this year's AGM.

Yours faithfully

Sandra Turner
Chair of the Remuneration Committee
27 February 2018

Remuneration policy report

This section of our report sets out the summary of the remuneration policy for all Executive and Non-Executive Directors at Greggs. It explains the purpose and strategy of each element of the package and demonstrates how the policy 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.

Our Directors' remuneration policy was approved by shareholders at our AGM on 19 May 2017 and became effective for three years from that date.

The policy for the remuneration of the Executive and Non-Executive Directors is set out in the tables below:

Executive Directors

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% of base salary contribution for the Chief Executive and up to 15% 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% 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% of the maximum will be payable in shares, which (after any sales to pay tax and other statutory deductions) must be held in the Employee Benefit Trust for two years after receipt. 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% of base salary for the Chief Executive and 90% of base salary for other Executive Directors. On target performance delivers no more than 60% of the maximum. No more than 25% of the bonus opportunity is payable under each element for threshold performance.

Element	Purpose and strategy	Operation	Maximum opportunity
Performance Share Plan (PSP)	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 and other deductions). 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 directly from the individual concerned.	115% of base salary for Chief Executive and 95% of base salary for other Executive Directors 150% of base salary in exceptional circumstances. Threshold vesting at 25% of the maximum.
Saving Related Share Option Scheme (SAYE and SIP)	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 and SIP Schemes, which are available for all employees. The rules of these schemes require that all options granted must be on the same terms.	Executive Directors may enter into a contract to save up to an agreed saving limit in line with all colleagues in the business and HMRC guidelines.
Share retention guidelines	To further align the interests of Executive Directors to those of shareholders.	Executive Directors are required to build up a shareholding of 200% of base salary within five years of appointment. This is achieved through vested awards granted via the PSP and deferred bonus shares.	n/a

Non-Executive Directors

Element	Purpose and strategy	Operation	Maximum opportunity
Non-Executive Chairman and Directors' fees	To attract and retain high quality and experienced Non-Executive Chairman and Directors.	The Chairman is paid an all-encompassing fee. Non-Executive Directors are paid a basic fee and the Chairs 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. These fees are reviewed and set annually in December and implemented from 1 January. Non-Executive Directors are not eligible for pension scheme membership, bonus or incentive arrangements. They are entitled to reimbursement of reasonable business expenses and tax thereon. They may also receive limited travel or accommodation related benefits in connection with their role as a Director.	There is no prescribed maximum.

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

With the SIP, all colleagues may purchase Company shares from pre-tax salary subject to HMRC limits. After six months' service all colleagues are eligible to participate in the profit-sharing scheme in which they share ten per cent of our profits.

Policy discretion

The Committee will operate incentive plans in accordance with their respective rules, the Listing Rules and the HMRC limits 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;
- 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.

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 Director 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. Any buyout awards would be made under existing arrangements where possible or as permitted under the Listing Rules.

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 opposite.

The Company's policy is that current Executive Directors' service contracts do not have a specific duration but may be terminated with twelve 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;
– deferred bonus shares must normally be retained in trust until the end of their two year holding period and will be subject to recovery and withholding in the event of misstatement of performance, error or misconduct, where this has led to an overpayment in the view of the Committee for a period of three years from the payment date;
– any unvested awards held under the PSP will lapse at cessation, unless the individual is leaving in good leaver circumstances (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 normal vesting date (other than on death or where 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). Vested awards will normally be subject to the mandatory two-year holding period although the Committee will have discretion to waive this in exceptional circumstances; 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
Richard Hutton	7 April 2006

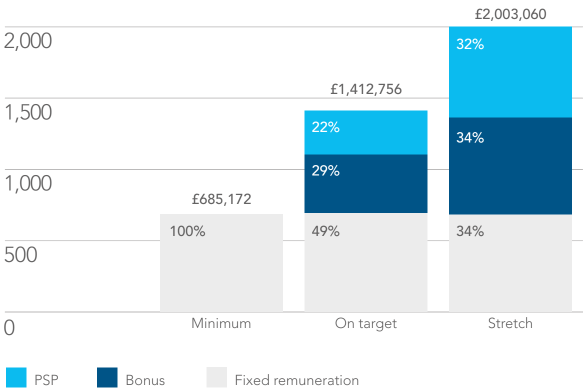
Raymond Reynolds stepped down from the Main Board on 19 May 2017.

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

Expected value of the proposed annual remuneration package for Executive Directors

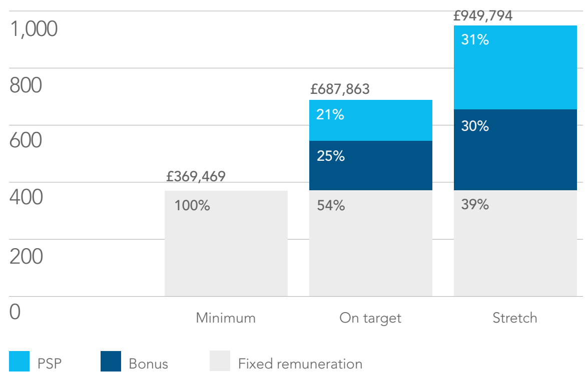
The following charts indicate the level of remuneration payable to Executive Directors in 2018 based on policy at 'minimum' remuneration, remuneration in line with 'on target' Company performance, and the maximum remuneration available.

Chief Executive – Roger Whiteside



	Minimum	On target	Stretch
Fixed remuneration:			
salary	£549,120	£549,120	£549,120
pension	£123,552	£123,552	£123,552
benefits	£12,500	£12,500	£12,500
Bonus	–	£411,840	£686,400
Performance Share Plan	–	£315,744	£631,488
Total	**£685,172**	**£1,412,756**	**£2,003,060**

Finance Director – Richard Hutton



	Minimum	On target	Stretch
Fixed remuneration:			
salary	£313,689	£313,689	£313,689
pension	£40,780	£40,780	£40,780
benefits	£15,000	£15,000	£15,000
Bonus	–	£169,392	£282,320
Performance Share Plan	–	£149,002	£298,005
Total	**£369,469**	**£687,863**	**£949,794**

Assumptions used in the charts:
Base salary levels as at 1 January 2018.
The value of taxable benefits is based on the cost of supplying those benefits (as disclosed) for the 52 weeks ended 30 December 2017.

BONUS
Minimum remuneration – assumes no award is earned under the annual bonus plan.
On target remuneration – the annual bonus plan assumes the target level is reached for each of the elements:
– 50% of profit (total 25% of max potential)
– 50% LFL sales (total 10% of max potential)
– Mid-range for costs (total 5% of max potential)
– Full pay out for strategic elements (10% for each element giving a total 20% of max potential)
Calculated as 60 per cent of max potential – 75 per cent of salary for CEO and 54 per cent of salary for FD
Maximum remuneration – assumes full vesting for all elements under the annual bonus plan and therefore full pay out. Calculated as 125 per cent of salary for CEO and 90 percent of salary for FD.

PSP element is calculated as award percentage of base salary multiplied by the relevant vesting percentage. Share price movement and dividend accrual have been excluded.

Minimum remuneration – assumes no vesting is achieved under the PSP.
On target remuneration – assumes 50% vesting is achieved and is calculated as 50 per cent of 115 per cent of salary for CEO and 50 per cent of 95 per cent of salary for FD.
Maximum remuneration – assumes full vesting is achieved and is calculated as 100 per cent of 115 per cent of salary for CEO and 100 per cent of 95 per cent of salary for FD.

Terms of appointment of Non-Executive Directors

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 at least six years, but without any commitment by either party.

Annual remuneration report

Our remuneration policy is simple and consistent, with pay outcomes dependent upon performance linked to our business strategy. It ensures a significant proportion of pay is delivered in shares to provide alignment with investors and incorporates a number of best practice features.

Outlined below are the current Remuneration Committee members:

Member	Meeting attendance
Sandra Turner (Chair since appointment to the Board)	2/2
Allison Kirkby	2/2
Helena Ganczakowski	2/2
Peter McPhillips	2/2

All members are considered to be independent for the purpose of the UK Corporate Governance code and the Company Secretary acts as Secretary to the Committee.

Responsibility is delegated to the Remuneration Committee to ensure that an effective remuneration policy is in place for the Chief Executive, the Chairman and other Executive and Non-Executive Directors. It is the Committee's role to design a policy to ensure that executive remuneration is aligned to the delivery of Greggs' business strategy and the alignment between our Executive Directors and shareholders is strengthened whilst taking close account of the business strategy, current and emerging market practice and the best practice expectations of institutional shareholders.

The Committee maintains an active dialogue with institutional investors and shareholder representatives and although the Committee does not currently consult with employees on Directors' pay policy this is kept under review. The Committee will give further consideration to this during 2018 in light of the proposed changes to the UK Corporate Governance Code.

Summary of committee activity during 2017

During 2017 the committee has:

– Finalised the review of the remuneration policy.
– Discussed and reviewed Directors' salaries.
– Discussed and reviewed bonus percentage, bonus metrics and bonus deferral.
– Discussed and reviewed the targets for bonus and PSP for the year ahead.
– Approved grants under the share option scheme (to senior managers below Operating Board level) and the Company SAYE scheme.
– Appointed new advisors to the Remuneration Committee.

Structure and content of the remuneration report

The Remuneration 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 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 71 to 75 and we have indicated appropriately the audited sections of this remuneration report.

Remuneration advice

The Chief Executive along with Jonathan Jowett (Company Secretary and General Counsel), Roisin Currie (Retail & People Director) and Emma Walton (Head of People) are normally invited to attend the Committee meetings in order to provide advice and support to the Committee. During the year NBS, part of Aon plc, supported the Committee.

NBS is a signatory to the Remuneration Consultants' Code of Conduct in relation to executive remuneration consulting in the UK.

The Committee appointed new advisors, Korn Ferry Hay Group, in December 2017. Korn Ferry Hay Group is also a signatory to the Remuneration Consultants' Code of Conduct.

The Committee reviewed the operating processes in place at NBS and Korn Ferry and is satisfied that the advice it receives is objective and independent. Fees paid to NBS during the year were £12,800. No fees were paid to Korn Ferry Hay Group during the year.

Shareholder dialogue

The voting outcome from the 2017 Annual General Meeting reflected both strong individual and institutional shareholder support.

Shareholders were asked to approve the 2016 Directors' remuneration report, our new remuneration policy and an amendment to the PSP and did so as outlined below. We will continue to engage with shareholders to understand any concerns they may have about our policy and its implementation during the life of the new policy.

	Approve the remuneration report	
	Total number of votes	% of votes cast
For	57,539,485	95.66%
Against	2,607,460	4.34%
Total votes cast (excluding votes withheld)	**60,146,945**	**100%**
Votes withheld	170,676	
Total votes cast (including votes withheld)	**61,185,466**	

	Approve the remuneration policy	
	Total number of votes	% of votes cast
For	57,297,311	93.91%
Against	3,717,480	6.09%
Total votes cast (excluding votes withheld)	**61,014,791**	**100%**
Votes withheld	170,676	
Total votes cast (including votes withheld)	**61,185,467**	

	Approve amendment to PSP	
	Total number of votes	% of votes cast
For	59,300,511	97.14%
Against	1,747,528	2.86%
Total votes cast (excluding votes withheld)	**61,048,039**	**100%**
Votes withheld	137,428	
Total votes cast (including votes withheld)	**61,185,467**	

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

How our remuneration policy will be implemented in 2018 – Executive Directors

The section below summarises the implementation of our remuneration policy for 2018.

Base salary 2018

The annual base salaries for the Executive Directors were reviewed with effect from 1 January 2018; increases and current salaries are outlined below:

Director	Salary as at 1 January 2017	Salary as at 1 January 2018	% increase
Roger Whiteside (Chief Executive)	£534,163	£549,120	2.8%
Richard Hutton (Finance Director)	£305,145	£313,689	2.8%

Increases are in line with the average base salary increase for the workforce as a whole.

Pension contribution 2018

The pension contribution rates (both of which are cash in lieu) are:

Roger Whiteside	22.5%
Richard Hutton	13%

Annual bonus 2018

The annual bonus opportunity for 2018 is outlined below:

Chief Executive	• Maximum opportunity of 125% of base salary. • Bonus in excess of 50% of maximum will be payable in shares deferred for two years.
Finance Director	• Maximum opportunity of 90% of base salary. • Bonus in excess of 50% of maximum will be payable in shares deferred for two years.

The bonus metrics are:

Measure	Profit	Sales	Strategic objectives
Weighting	50% of total	20% of total	30% of total
Detail and link to strategy.	Reflects the profit of the Group at an underlying level before tax. This will be based on meeting and exceeding budget for the year.	Based on company-managed shop like-for-like sales excluding any additional shops opened during the bonus year.	Detailed below.

The strategic objectives for each bonus cycle are based on measures which will provide a strong link to future value creation. For the 2018 bonus the three strategic objectives, each relating to ten per cent of the bonus opportunity, will be:

i. Cost savings (ten per cent of the measure);
ii. Specific project delivery within our change programme regarding processes and systems with two elements measured independently, both elements being worth five per cent each. These measures will be based on delivery of new systems and processes into two of our supply chain operations (five per cent payable on each element; a total of ten per cent) and
iii. Specific project delivery within our programme for supply chain restructuring, specifically the transfer and operation of product platforms with three elements measured independently; one element being worth five per cent, one element being worth three per cent and one element being worth two per cent.

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 (KPIs) each year and varies them as appropriate to reflect the priorities for the business in the year ahead. Where appropriate a sliding scale of targets is set for each KPI to encourage continuous improvement, or sustained high performance.

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, if the profit performance for the year is judged to be running significantly below that required for the achievement of the long-term strategy.

Bonus targets for the forthcoming year are considered to be commercially sensitive and so have not been disclosed. Retrospective disclosure of the targets and performance against them will be made in next year's annual report on remuneration.

PSP award 2018

PSP awards will be granted as follows:

Chief Executive	115% of base salary
Executive Directors	95% of base salary

Performance conditions will be based on an equal split of two different financial measures, EPS and ROCE (for discrete parts of an award)*. EPS and ROCE are two of our eight strategic KPIs and together provide a rounded assessment of our overall profitability against stretching targets set in line with the strategic plan and business outlook over the performance period. For these awards the ROCE ranges have been increased to ensure that they remain appropriately stretching in light of our business strategy without encouraging undue risk taking. The EPS targets require the same level of growth as for last year's award, albeit the base point from which the growth is measured is higher than last year.

For the 2018 awards the target ranges will be as follows:

- The EPS performance condition will require average annual growth of EPS of 5 per cent to 11 per cent over three financial years measured from the 2017 financial year end.
- The ROCE condition will require average annual ROCE over the three-year performance period (2018, 2019 and 2020) to be in the range 25 per cent to 29 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 Executive Directors and shareholders, a holding period is attached to vested PSP awards granted in the policy period, requiring the vested shares to be held (net of tax and other deductions) for a further two years.

* EPS and ROCE are measured excluding exceptional items.

How our remuneration policy will be implemented in 2018 – 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. The fees for Non-Executive Directors increased by 2.8 per cent on 1 January 2018 in line with the base award for our whole workforce in 2018.

The Non-Executive Directors are paid an annual base fee which is currently £44,639 and additional responsibility fees of £6,637 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 £6,637 will be paid.

Details of the fees being paid to Non-Executive Directors in 2018 are set out below:

Name	Position	Fee
Ian Durant	Chairman	£167,815
Allison Kirkby	Chair of the Audit Committee	£51,276
Helena Ganczakowski	Non-Executive Director	£44,639
Peter McPhillips	Non-Executive Director	£44,639
Sandra Turner	SID & Chair of the Remuneration Committee	£51,276

How our remuneration policy was implemented in 2017 (audited)

Total remuneration payable for 2017

The following table presents the remuneration payable for 2017 (showing the equivalent figures for 2016) for the Executive Directors.

	Salary £	Pension contribution (including salary in lieu) £	Taxable benefits £	Annual incentives (including profit share) £	Long-term incentives[1] £	Total remuneration £
Roger Whiteside						
2017	534,163	120,186	12,441	429,467	580,395	1,676,652
2016	521,135	117,255	12,408	564,780	919,948	2,135,526
Richard Hutton						
2017	305,145	41,067	16,203	176,642	257,870	796,927
2016	297,702	30,582	15,298	232,297	408,734	984,613
Raymond Reynolds						
2017[2]	104,012	15,043	6,006	60,210	230,103	415,374
2016	265,641	32,680	14,833	207,280	364,721	885,155

Notes:
1 The 2017 long-term incentive vesting values are based on the forecast value of the awards due to vest on 26 March 2018. This value will be trued up in the 2018 report to reflect the actual level of vesting and share price at the vesting date. The 2016 long-term incentive value has been restated and reflects the actual value of the awards that vested in March 2017, following the estimated value last year.
2 2017 remuneration until date of retirement from the Board on 19 May 2017.

Fees for Non-Executive Directors

The fees for Non-Executive Directors were as follows:

	2017	2016
Ian Durant	£163,244	£159,263
Allison Kirkby	£49,880	£48,663
Helena Ganczakowski	£43,424	£42,365
Peter McPhillips	£43,424	£42,365
Sandra Turner	£49,880	£48,663

Annual bonus 2017

The table below outlines the bonus payments to Executive Directors in respect of 2017.

Measure	Strategic objective		Weighting	Entry	Target	Stretch	Actual	%
All Executive Directors								
Profit (£)	Profit before tax (excluding exceptional items and property profits)	To deliver profit target	50%	£78.0m	£80.0m	£88.0m	£81.7m	22.54%
Sales (%)	Company–managed like-for-like sales	To deliver target increase	20%	1.5%	3.0%	4.5%	3.7%	12.53%
Strategic (£)	Cost savings		10%	£6.0m	£10.0m	–	£9.7m	9.25%
Strategic (3 elements)	Process and system change delivery*		10%				Achieved	10.0%
Strategic (3 elements)	Supply chain reorganisation*		10%				Achieved	10.0%
Total weighting based on balanced scorecard			**100%**					**64.32%**

* Project milestones.

Bonus achieved for 2017	As % of maximum
Roger Whiteside	64.32%
Richard Hutton	64.32%
Raymond Reynolds[1]	64.32%

Note:
1 Reflects bonus earned during period served as Director during 2017.

		Criteria	Payment of 10% total
Process and system change delivery	Forecast and replenishment roll-out	All company-managed shops by end of Q3 2017	5.0%
	Manufacturing pilot	Delivered and operational by end of FY2017	2.5%
	Warehousing pilot	Delivered and operational by end of FY2017	2.5%
Supply chain reorganisation	Increased capability	To enable opening of 130 shops	5.0%
	Transfer of production platform (Yum Yum)	Delivered and operational by end of FY2017	2.5%
	Transfer of production platform (muffin)	Delivered and operational by end of FY2017	2.5%

Any element of the bonus earned above 50 per cent of the maximum will be paid in shares for the Chief Executive and other Executive Directors listed above, which (after any sales to pay tax and other statutory deductions) must be held in the Employee Benefit Trust for two years after receipt.

The number of shares will be calculated by dividing 14.32 per cent of the net bonus by the closing market share value on the date of payment.

Details of the shares awarded in 2017 for the 2016 bonus year are outlined below:

Director	Number of shares awarded
Roger Whiteside	11,701
Richard Hutton	3,008
Raymond Reynolds	2,684

Performance Share Plan award for performance over 2015 – 2017

The PSP award granted in 2015 measured EPS performance by reference to the three financial years to 30 December 2017 and average annual ROCE over the three-year performance period 2015 to 2017. 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 + 1% p.a. to RPI + 7% p.a. over three financial years.	RPI +1% (12.5% vesting)	RPI +7% (100% vesting)	RPI +12.86%	50%
ROCE (50%)	Average annual ROCE over the three-year performance period.	19.0% (12.5% vesting)	21.5% (100% vesting)	27.3%	50%
				Total vesting	**100%***

* Normalised EPS is the Company's reported earnings per share excluding exceptional items.

These options will vest on 26 March 2018.

The table below details the impact on share price appreciation on the value of this PSP award.

Executive	Number of shares at grant	Value at grant[1]	Vesting outcome	Number of shares to vest	Estimated value[2]	Value attributable to share price growth
Roger Whiteside	44,103	£456,466	100%	44,103	£580,395	£123,929
Richard Hutton	19,595	£202,808	100%	19,595	£257,870	£55,062
Raymond Reynolds	17,485	£180,970	100%	17,485	£230,103	£49,133

Notes:
1 Based on a share price at grant of £10.350.
2 Based on a three-month average share price to 31 December 2017 of £13.16.

Performance Share Plan Awards granted during 2017 are as follows:

Executive	Type of award	Basis of award granted	Share price at date of grant (19 May 2017)	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	115% of salary	£10.72	57,303	£614,288	25%	Three financial years to 3 January 2020
Richard Hutton		95% of salary	£10.72	27,041	£289,879		

The target ranges for this award are as follows:
- EPS average annual growth of 5 per cent to 11 per cent over three years from the 2016 financial year end.
- Average annual ROCE over the three-year performance period (2017, 2018 and 2019) to be in the range 23 per cent to 27 per cent.

In both cases, 25 per cent of the award will vest on achieving threshold performance and thereafter straight-line sliding scales will apply until stretch performance is achieved. A holding period is attached to vested PSP awards requiring the vested shares to be held (net of tax) for a further two years.

Outstanding Share Awards

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 1 January 2017 number	Granted number	Exercised number	Lapsed number	At 30 December 2017 number	Exercise price	Date of grant	Market price of each share at date of grant	Date from which exercisable	Expiry date	Scheme
Roger Whiteside	90,191	–	90,191[1]	–	–	£nil	Mar 14	£4.9425	Mar 17	Mar 24	PSP
	44,103	–	–	–	44,103	£nil	Mar 15	£10.350	Mar 18	Mar 25	PSP
	42,560	–	–	–	42,560	£nil	Mar 16	£11.020	Mar 19	Mar 26	PSP
	–	57,303	–	–	57,303	£nil	May 17	£10.720	May 20	May 27	PSP
	449	–	449[2]	–	–	£4.65	Apr 14		Jun 17	Nov 17	SAYE
	215	–	–	–	215	£8.18	Apr 15		Jun 18	Nov 18	SAYE
	148	–	–	–	148	£8.70	Apr 16		Jun 19	Nov 19	SAYE
	–	169	–	–	169	£8.07	Apr 17		Jun 20	Nov 20	SAYE
	177,666	57,472	90,640	–	144,498						
Richard Hutton	40,072	–	40,072[3]	–	–	£nil	Mar 14	£4.9425	Mar 17	Mar 24	PSP
	19,595	–	–	–	19,595	£nil	Mar 15	£10.350	Mar 18	Mar 25	PSP
	18,910	–	–	–	18,910	£nil	Mar 16	£11.020	Mar 19	Mar 26	PSP
	–	27,041	–	–	27,041	£nil	May 17	£10.720	May 20	May 27	PSP
	449	–	4492	–	–	£4.65	Apr 14		Jun 17	Nov 17	SAYE
	215	–	–	–	215	£8.18	Apr 15		Jun 18	Nov 18	SAYE
	148	–	–	–	148	£8.70	Apr 16		Jun 19	Nov 19	SAYE
	–	169	–	–	169	£8.07	Apr 17		Jun 20	Nov 20	SAYE
	79,389	27,210	40,521	–	66,078						

	At 1 January 2017 number	Granted number	Exercised number	Lapsed number	At 30 December 2017 number	Exercise price	Date of grant	Market price of each share at date of grant	Date from which exercisable	Expiry date	Scheme
Raymond Reynolds	62,640	–	57,555[4]	–	5,085[5]	£3.56	Apr 09		Apr 12	Apr 19	Exec
	12,125	–	–	–	12,125	£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
	17,485	–	–	–	17,485	£nil	Mar 15	£10.350	Mar 18	Mar 25	PSP
	16,873	–	–	–	16,873	£nil	Mar 16	£11.020	Mar 19	Mar 26	PSP
	–	24,129	–	–	24,129	£nil	May 17	£10.720	May 20	May 27	PSP
	449	–	–	449	–	£4.65	Apr 14		Jun 17	Nov 17	SAYE
	148	–	–	–	148	£8.70	Apr 16		Jun 19	Nov 19	SAYE
	–	169	–	–	169	£8.07	Apr 17		Jun 20	Nov 20	SAYE
	182,213	24,298	57,555	449	148,507						

Notes:
1 The market value on the date of exercise was £10.200 and the resultant gain on exercise was £919,948.
2 The market value on the date of exercise was £10.910 and the resultant gain on exercise was £2,811.
3 The market value on the date of exercise was £10.900 and the resultant gain on exercise was £436,785.
4 The market value on the date of exercise was £11.15 and the resultant gain on exercise was £436,842.
5 Performance conditions have been achieved and the shares remained exercisable.

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 30 December 2017 was £13.99. The highest and lowest mid-market prices of ordinary shares during the financial year were £13.99 and £9.645, respectively.

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 1 January 2017 £	Accrued annual pension entitlement as at 30 December 2017 £	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	–	–	–

Notes:
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.
2 The inflation rate of 3.2 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 1 January 2017 £	Cash equivalent transfer value as at 30 December 2017 £	Increase in the cash equivalent transfer value since January 2017 £
Richard Hutton	386,456	327,015	–
Raymond Reynolds	1,669,402	1,515,966	–

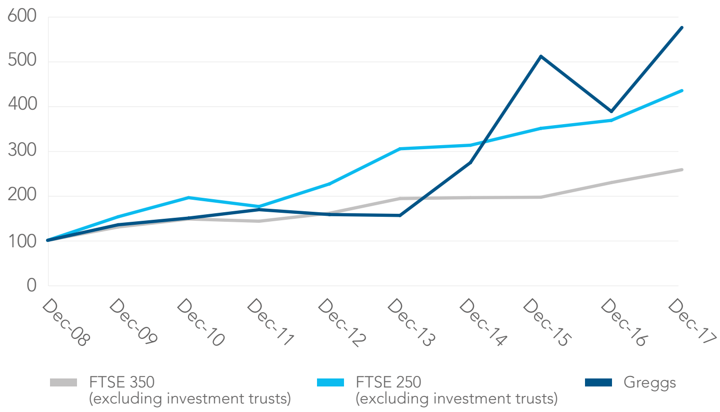
Note:
Cash equivalent transfer values have been calculated in accordance with Actuaries Guidance Note GN11 and the increase is stated net of contributions made by the Director. The transfer values disclosed above do not represent a sum paid or payable to the individual Director. Instead they represent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

Chief Executive pay compared to performance

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

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



Remuneration outcomes for Chief Executive over last eight years

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

	2010	2011	2012	2013	2014	2015	2016	2017
Total remuneration	£767,397	£707,245	£635,030	£1,011,381	£1,238,248	£2,462,193	£2,135,526	1,676,652
Bonus (% of max potential)	56.6%	38.6%	18%	20%*	100%	93.7%	86.7%	64.32%
PSP/options (% max potential)	n/a	0%	78.3%	n/a	n/a	100%	100%	100%

* This figure includes only the performance related bonus that was achieved in 2013 and not the bonus share award given to the Chief Executive.

Directors' shareholding and share interests (Audited)

Details of the shareholdings of each Executive Director as of 30 December 2017 and their interests in shares are detailed below with the percentage holding calculated using the share price at that date:

Director	Beneficially owned at 30 December 2017	Beneficially owned at 1 January 2017	Outstanding PSP awards	Outstanding deferred bonus awards	Outstanding option awards	% shareholding guideline achieved at 30 December 2017
Roger Whiteside	195,472	135,563	143,966	–	–	512%
Richard Hutton	70,844	78,094	65,546	–	–	325%
Raymond Reynolds	63,168	64,484	143,105	–	5,085	324%
Ian Durant	11,700	11,700	–	–	–	n/a
Allison Kirkby	1,600	1,600	–	–	–	n/a
Helena Ganczakowski	1,100	1,072	–	–	–	n/a
Peter McPhillips	1,000	1,000	–	–	–	n/a
Sandra Turner	1,000	1,000	–	–	–	n/a

There have been no changes since 30 December 2017 in the Directors' interests noted above.

Exit payments or payments to past Directors (Audited)

There were no payments to past Directors in the 52 weeks ended 30 December 2017. No payments for compensation or loss of office were paid to, or receivable by, any Director. This includes Raymond Reynolds, who did not receive any payments for loss of office following his departure from the Board on 19 May 2017. He remains employed by Greggs in a different role.

External directorships
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.

Roger Whiteside was appointed as Non-Executive Director of Card Factory plc, effective from 4 December 2017. He retains the fees that he earns.

Relative importance of spend on pay
The Committee is aware of the importance of pay across the business and the table below shows the expenditure and percentage change in the overall spend on all colleague costs compared to other key financial indicators.

	2017 £m	2016 £m	% increase/ (decrease)
All colleague costs	**357.3**	336.9	6.1%
Dividends	**32.2**	30.9	4.2%
Retained profit (excluding exceptional items)	**64.9**	62.3	4.2%
Corporation tax paid	**17.6**	16.2	8.9%

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 colleagues as they too are entitled to receive benefits and annual bonus awards.

	% change from 2016 to 2017
Chief Executive (£)	
– salary	2.5%
– benefits	0.3%
– performance pay	(32%)
Average per colleague (£)	
– salary	4.1%
– benefits*	15%
– performance pay	(6.1%)

* The average employee benefits figure is based on tax year 2015/16 for 2016 and tax year 2016/17 for 2016.

At the AGM of the Company to be held on 9 May 2018, an ordinary resolution will be proposed to approve the annual report on remuneration.

This report was approved by the Board on 27 February 2018.

Signed on behalf of the Board

Sandra Turner
Chair of the Remuneration Committee
27 February 2018

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND ACCOUNTS

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

Company law requires the Directors to prepare Group and Parent Company accounts for each financial year. Under that law they are required to prepare the Group accounts in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and have elected to prepare the Parent Company 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, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its accounts comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of accounts that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a strategic report, 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 accounts

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 strategic report and Directors' report include 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
27 February 2018

Richard Hutton
Finance Director

INDEPENDENT AUDITOR'S REPORT
to the members of Greggs plc

Opinions and conclusions arising from our audit
1. Our opinion is unmodified

We have audited the accounts of Greggs plc (the Company) for the 52 weeks ended 30 December 2017 which comprise the consolidated income statement, consolidated statement of comprehensive income, balance sheets, statements of changes in equity, statements of cashflows and the related notes, including the accounting policies.

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 30 December 2017 and of the Group's profit for the period then ended;
- the Group accounts have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the Parent Company accounts have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the accounts have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group accounts, Article 4 of the IAS Regulation.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Audit Committee.

We were appointed as auditor by the Company before 1984. The period of total uninterrupted engagement is for more than the 34 financial years ended 30 December 2017. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview

Materiality: Group accounts as a whole		**£4m (2016: £3.9m)** 5% (2016: 5%) of normalised PBT
Risks of material misstatement (Group and Parent)		vs 2016
New: Event-driven	Recoverability of property, plant and equipment	▲
Recurring risks	Dilapidation provisions	▼

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the accounts and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the accounts as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response
Recoverability of property, plant and equipment (Group and Parent Company) (carrying amount of property, plant and equipment: £319.2m; 2016: £307.4m Refer to page 50 (Audit Committee report), pages 82-83 (accounting policy) and pages 93-94 (financial disclosures)	In 2016 the Group announced a large-scale investment programme in manufacturing and distribution operations. The next phase of the supply chain investment programme, including the creation of centres of excellence, was announced in early 2017. The consolidation of certain production processes may reduce the useful economic life and recoverable amount of certain assets. Where assets are considered recoverable but will no longer be used once the programme progresses this may result in the need for accelerated depreciation. Where the assets are no longer considered recoverable an impairment should be recognised. Subjective estimate Identifying the affected assets requires fixed assets information which reflects the current location and use of supply chain assets. There is a risk that all relevant assets may not be appropriately captured or that assets may be provided against which continue to be used elsewhere in the Group. Determining the period over which to accelerate the depreciation of assets depends on when the assets are expected to be used by the Group. This is a judgemental assessment of future activities and there is a risk that assets may be depreciated over the incorrect period.	Our procedures included: – Personnel interviews: We obtained a detailed understanding of the progress of this phase of the programme and the forecast business and financial impacts as at the period end; – Methodology choice: We assessed the Group's assumptions around useful economic lives of assets with reference to detailed plans for the programme; – Site visits: We visited a sample of affected supply sites to test that the data used in the Group's assessment reflected the pattern of use and location of assets. As part of these visits we independently identified affected assets and compared these with those identified by the Group for impairment or accelerated depreciation; – Test of detail: We critically assessed whether all relevant assets had been considered, inspected the fixed asset register for assets which may become obsolete and compared these with those assets already provided against; – Assessing application: We challenged the classification of items as exceptional charges for the period and tested that items presented as exceptional were incurred as a result of the programme with reference to internal plans and communications; and – Assessing transparency: We considered the adequacy and accuracy of the related disclosures in the accounts and compliance of the annual report with the rules for alternative performance measures. Our results We found the Group's assessment of the property, plant and equipment balance to be acceptable (2016: acceptable).

	The risk	Our response
Retail property provisions (Group and Parent Company) (dilapidations provisions £3.0 million; 2016: £3.2 million) Refer to pages 50-51 (Audit Committee Report), pages 81 and 85 (accounting policy) and page 103 (financial disclosures)	The Group leases the majority of its shops and has circa 1,600 shop leases at the end of the period. Subjective estimate For the majority of shop leases the Group has obligations to restore shops to a certain condition at the end of the lease and provisions may be required for the costs of doing so. Determining provisions involves estimation of the costs anticipated to make good any alterations to properties and consideration of obligations present in lease agreements. Both of these factors can vary significantly between shops and, whilst the majority of leases contain dilapidation clauses, the Group does not always incur costs as a consequence. We continue to perform procedures over onerous lease provisions. However, following the Group's exit from a number of leases, we have not assessed the onerous lease aspect of the provision as one of the most significant risks in our current period audit and, therefore, it is not separately identified in our report.	Our procedures included: – Historical comparisons: We critically assessed the methodology applied to identify properties which required dilapidation provisions and the reasonableness of estimated costs in the context of Greggs' historic experience; – Test of detail: We inspected a sample of the Group's lease agreements to compare the relevant clauses with the Group's approach to provisioning; – Comparisons: We tested whether dilapidation obligations had been provided for by selecting a sample, concentrating on known and planned closures or resites of shops; – Our sector experience: We considered specific issues on certain Group properties, such as the shops which previously had in-store bakeries, and critically assessed the impact of these on the likely level of dilapidation costs; and – Assessing transparency: We also considered the adequacy of the Group's disclosures about the degree of estimation involved in arriving at the provisions. Our results We found the Group's estimated dilapidations provisions to be acceptable (2016: acceptable).

We continue to perform procedures over provisions in respect of restructuring costs. However, as the Group's supply site investment programme has progressed into the next phase this risk has reduced. We have not assessed this as one of the most significant risks in our current period audit and, therefore, it is not separately identified in our report.

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

Materiality for the accounts as a whole was set at £4.0 million (2016: £3.9 million), determined with reference to a benchmark of Group profit before tax normalised to exclude exceptional items (as disclosed in Note 4 of the accounts) of which it represents 5 per cent (2016: 5 per cent).

Materiality for the Parent Company accounts as a whole was set at £4.0 million (2016: £3.9 million) determined with reference to a benchmark of Company profit before tax normalised to exclude exceptional items of which it represents 5 per cent (2016: 5 per cent).

We agreed to report to the Audit Committee any corrected or uncorrected misstatements exceeding £200,000 (2016: £195,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

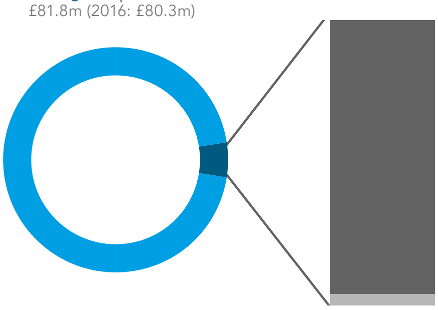
The Group audit team performed the audit of the Group as if it was a single aggregated set of financial information which covered 100 per cent (2016: 100 per cent) of total Group revenue, Group profit before tax and total Group assets. The audit was performed using the materiality levels set out above. The Group team performed procedures on the items excluded from normalised Group profit before tax.

Profit before tax
excluding exceptional items
£81.8m (2016: £80.3m)

Materiality
£4.0m (2016: £3.9m)

Profit before tax

Group materiality



£4.0m
Whole accounts materiality
(2016: £3.9m)

The Group audit team performed the audit of the Group as if it was a single aggregated set of financial information.

£200k
Misstatements reported to the Audit Committee
(2016: £195k)

4. We have nothing to report on going concern

We are required to report to you if:

- we have anything material to add or draw attention to in relation to the Directors' statement included in the accounts (page 81) on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least 12 months from the date of approval of the accounts; or
- the related statement under the Listing Rules set out on page 45 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects.

5. We have nothing to report on the other information in the annual report

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

Our responsibility is to read the other information and, in doing so, consider whether, based on our accounts audit work, the information therein is materially misstated or inconsistent with the accounts or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and Directors' report

Based solely on our work on the other information:
We have not identified material misstatements in the strategic report and the Directors' report;

- in our opinion the information given in those reports for the financial period is consistent with the accounts; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report

In our opinion the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of principal risks and longer-term viability

Based on the knowledge we acquired during our accounts audit, we have nothing material to add or draw attention to in relation to:

- the Directors' confirmation within the viability statement on pages 34-35 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the principal risks and Uncertainties disclosures describing these risks and explaining how they are being managed and mitigated; and
- the Directors' explanation in the viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the viability statement. We have nothing to report in this respect.

Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our accounts 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 position and performance, business model and strategy; or
- the section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the 11 provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

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6. We have nothing to report on the other matters on which we are required to report by exception
Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company 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.

We have nothing to report in these respects.

7. Respective responsibilities
Directors' responsibilities
As explained more fully in their statement set out on page 70, the Directors are responsible for: the preparation of the accounts including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of accounts that are free from material misstatement, whether due to fraud or error; assessing the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities
Our objectives are to obtain reasonable assurance about whether the accounts as a whole are free from material misstatement, whether due to fraud, other irregularities, or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the accounts. The risk of not detecting a material misstatement resulting from fraud or other irregularities is higher than for one resulting from error, as they may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control and may involve any area of law and regulation not just those directly affecting the accounts.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect
Our audit aimed to detect non-compliance with relevant laws and regulations (irregularities) that could have a material effect on the accounts. In planning and performing our audit, we considered the impact of laws and regulations in the specific areas of Food Safety and Health and Safety, given the industry in which the Group operates. We identified these areas through discussion with the Directors and other management (as required by auditing standards), and from our sector experience. In addition we had regard to laws and regulations in core areas such as financial reporting and company and taxation legislation.

We considered the extent of compliance with those laws and regulations that directly affect the accounts, being Food Safety and Health and Safety, as part of our procedures on the related accounts items. For the remaining laws and regulations, we made enquiries of Directors and other management (as required by auditing standards).

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

As with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

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

Mick Thompson
(Senior Statutory Auditor)
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Quayside House, 110 Quayside
Newcastle upon Tyne NE1 3DX
27 February 2018

CONSOLIDATED INCOME STATEMENT

for the 52 weeks ended 30 December 2017 (2016: 52 weeks ended 31 December 2016)

	Note	2017 Excluding exceptional items £'000	2017 Exceptional items (see Note 4) £'000	2017 Total £'000	2016 Excluding exceptional items £'000	2016 Exceptional items (see Note 4) £'000	2016 Total £'000
Revenue	1	**960,005**	**–**	**960,005**	894,195	–	894,195
Cost of sales		**(348,098)**	**(10,060)**	**(358,158)**	(324,289)	(4,367)	(328,656)
Gross profit		**611,907**	**(10,060)**	**601,847**	569,906	(4,367)	565,539
Distribution and selling costs		**(476,215)**	**198**	**(476,017)**	(441,246)	(594)	(441,840)
Administrative expenses		**(53,517)**	**–**	**(53,517)**	(48,315)	(216)	(48,531)
Operating profit		**82,175**	**(9,862)**	**72,313**	80,345	(5,177)	75,168
Finance expense	6	**(368)**	**–**	**(368)**	(26)	–	(26)
Profit before tax	3-6	**81,807**	**(9,862)**	**71,945**	80,319	(5,177)	75,142
Income tax	8	**(16,923)**	**1,884**	**(15,039)**	(18,064)	915	(17,149)
Profit for the financial year attributable to equity holders of the Parent		**64,884**	**(7,978)**	**56,906**	62,255	(4,262)	57,993
Basic earnings per share	9	**64.5p**	**(7.9p)**	**56.6p**	62.0p	(4.2p)	57.8p
Diluted earnings per share	9	**63.5p**	**(7.8p)**	**55.7p**	60.8p	(4.1p)	56.7p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the 52 weeks ended 30 December 2017 (2016: 52 weeks ended 31 December 2016)

	Note	2017 £'000	2016 £'000
Profit for the financial year		**56,906**	57,993
Other comprehensive income			
Items that will not be recycled to profit and loss:			
Re-measurements on defined benefit pension plans	20	**15,962**	(18,791)
Tax on re-measurements on defined benefit pension plans	8	**(2,714)**	3,194
Other comprehensive income for the financial year, net of income tax		**13,248**	(15,597)
Total comprehensive income for the financial year		**70,154**	42,396

BALANCE SHEETS
at 30 December 2017 (2016: 31 December 2016)

		Group		Parent Company	
	Note	**2017 £'000**	2016 £'000	**2017 £'000**	2016 £'000
ASSETS					
Non-current assets					
Intangible assets	10	**14,737**	14,254	**14,737**	14,254
Property, plant and equipment	11	**319,195**	307,363	**319,788**	307,956
Investments	12	**–**	–	**4,987**	4,987
Deferred tax asset	13	**782**	1,750	**1,231**	2,199
		334,714	323,367	**340,743**	329,396
Current assets					
Inventories	14	**18,688**	15,934	**18,688**	15,934
Trade and other receivables	15	**33,365**	30,713	**33,365**	30,713
Cash and cash equivalents	16	**54,503**	45,960	**54,503**	45,960
		106,556	92,607	**106,556**	92,607
Total assets		**441,270**	415,974	**447,299**	422,003
LIABILITIES					
Current liabilities					
Trade and other payables	17	**(107,126)**	(104,924)	**(114,933)**	(112,731)
Current tax liability	18	**(8,714)**	(10,426)	**(8,714)**	(10,426)
Provisions	21	**(12,090)**	(6,088)	**(12,090)**	(6,088)
		(127,930)	(121,438)	**(135,737)**	(129,245)
Non-current liabilities					
Other payables	19	**(5,127)**	(5,599)	**(5,127)**	(5,599)
Defined benefit pension liability	20	**(7,506)**	(22,851)	**(7,506)**	(22,851)
Long-term provisions	21	**(1,344)**	(1,426)	**(1,344)**	(1,426)
		(13,977)	(29,876)	**(13,977)**	(29,876)
Total liabilities		**(141,907)**	(151,314)	**(149,714)**	(159,121)
Net assets		**299,363**	264,660	**297,585**	262,882
EQUITY					
Capital and reserves					
Issued capital	22	**2,023**	2,023	**2,023**	2,023
Share premium account		**13,533**	13,533	**13,533**	13,533
Capital redemption reserve	22	**416**	416	**416**	416
Retained earnings		**283,391**	248,688	**281,613**	246,910
Total equity attributable to equity holders of the Parent		**299,363**	264,660	**297,585**	262,882

The accounts on pages 76 to 105 were approved by the Board of Directors on 27 February 2018 and were signed on its behalf by:

Roger Whiteside
Richard Hutton

Company Registered Number 502851

STATEMENTS OF CHANGES IN EQUITY

for the 52 weeks ended 30 December 2017 (2016: 52 weeks ended 31 December 2016)

Group

52 weeks ended 31 December 2016

	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 3 January 2016		2,023	13,533	416	248,697	264,669
Total comprehensive income for the year						
Profit for the financial year		–	–	–	57,993	57,993
Other comprehensive income		–	–	–	(15,597)	(15,597)
Total comprehensive income for the year		–	–	–	42,396	42,396
Transactions with owners, recorded directly in equity						
Sale of own shares		–	–	–	4,063	4,063
Purchase of own shares		–	–	–	(12,398)	(12,398)
Share-based payment transactions	20	–	–	–	1,994	1,994
Dividends to equity holders	22	–	–	–	(30,936)	(30,936)
Tax items taken directly to reserves	8	–	–	–	(5,128)	(5,128)
Total transactions with owners		–	–	–	(42,405)	(42,405)
Balance at 31 December 2016		2,023	13,533	416	248,688	264,660

52 weeks ended 30 December 2017

	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 1 January 2017		**2,023**	**13,533**	**416**	**248,688**	**264,660**
Total comprehensive income for the year						
Profit for the financial year		–	–	–	**56,906**	**56,906**
Other comprehensive income		–	–	–	**13,248**	**13,248**
Total comprehensive income for the year		–	–	–	**70,154**	**70,154**
Transactions with owners, recorded directly in equity						
Sale of own shares		–	–	–	**5,358**	**5,358**
Purchase of own shares		–	–	–	**(11,352)**	**(11,352)**
Share-based payment transactions	20	–	–	–	**1,835**	**1,835**
Dividends to equity holders	22	–	–	–	**(32,187)**	**(32,187)**
Tax items taken directly to reserves	8	–	–	–	**895**	**895**
Total transactions with owners		–	–	–	**(35,451)**	**(35,451)**
Balance at 30 December 2017		**2,023**	**13,533**	**416**	**283,391**	**299,363**

STATEMENTS OF CHANGES IN EQUITY

for the 52 weeks ended 30 December 2017 (2016: 52 weeks ended 31 December 2016) continued

Parent Company

52 weeks ended 31 December 2016

	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 3 January 2016		2,023	13,533	416	246,945	262,917
Total comprehensive income for the year						
Profit for the financial year	7	–	–	–	57,967	57,967
Other comprehensive income		–	–	–	(15,597)	(15,597)
Total comprehensive income for the year		–	–	–	42,370	42,370
Transactions with owners, recorded directly in equity						
Sale of own shares		–	–	–	4,063	4,063
Purchase of own shares		–	–	–	(12,398)	(12,398)
Share-based payment transactions	20	–	–	–	1,994	1,994
Dividends to equity holders	22	–	–	–	(30,936)	(30,936)
Tax items taken directly to reserves	8	–	–	–	(5,128)	(5,128)
Total transactions with owners		–	–	–	(42,405)	(42,405)
Balance at 31 December 2016		2,023	13,533	416	246,910	262,882

52 weeks ended 30 December 2017

	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 1 January 2017		**2,023**	**13,533**	**416**	**246,910**	**262,882**
Total comprehensive income for the year						
Profit for the financial year	7	**–**	**–**	**–**	**56,906**	**56,906**
Other comprehensive income		**–**	**–**	**–**	**13,248**	**13,248**
Total comprehensive income for the year		**–**	**–**	**–**	**70,154**	**70,154**
Transactions with owners, recorded directly in equity						
Sale of own shares		**–**	**–**	**–**	**5,358**	**5,358**
Purchase of own shares		**–**	**–**	**–**	**(11,352)**	**(11,352)**
Share-based payment transactions	20	**–**	**–**	**–**	**1,835**	**1,835**
Dividends to equity holders	22	**–**	**–**	**–**	**(32,187)**	**(32,187)**
Tax items taken directly to reserves	8	**–**	**–**	**–**	**895**	**895**
Total transactions with owners		**–**	**–**	**–**	**(35,451)**	**(35,451)**
Balance at 30 December 2017		**2,023**	**13,533**	**416**	**281,613**	**297,585**

STATEMENTS OF CASHFLOWS

for the 52 weeks ended 30 December 2017 (2016: 52 weeks ended 31 December 2016)

	Note	Group 2017 £'000	Group 2016 £'000	Parent Company 2017 £'000	Parent Company 2016 £'000
Operating activities					
Cash generated from operations (see below)		**134,470**	133,773	**134,470**	133,773
Income tax paid		**(17,602)**	(16,157)	**(17,602)**	(16,157)
Net cash inflow from operating activities		**116,868**	117,616	**116,868**	117,616
Investing activities					
Acquisition of property, plant and equipment		**(68,646)**	(74,016)	**(68,646)**	(74,016)
Acquisition of intangible assets		**(3,918)**	(6,106)	**(3,918)**	(6,106)
Proceeds from sale of property, plant and equipment		**2,171**	4,698	**2,171**	4,698
Interest received	6	**249**	124	**249**	124
Net cash outflow from investing activities		**(70,144)**	(75,300)	**(70,144)**	(75,300)
Financing activities					
Sale of own shares		**5,358**	4,063	**5,358**	4,063
Purchase of own shares		**(11,352)**	(12,398)	**(11,352)**	(12,398)
Dividends paid	22	**(32,187)**	(30,936)	**(32,187)**	(30,936)
Net cash outflow from financing activities		**(38,181)**	(39,271)	**(38,181)**	(39,271)
Net increase in cash and cash equivalents		**8,543**	3,045	**8,543**	3,045
Cash and cash equivalents at the start of the year	16	**45,960**	42,915	**45,960**	42,915
Cash and cash equivalents at the end of the year	16	**54,503**	45,960	**54,503**	45,960

Cash flow statement – cash generated from operations

	Note	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Profit for the financial year		**56,906**	57,993	**56,906**	57,967
Amortisation	10	**3,435**	2,100	**3,435**	2,100
Depreciation	11	**50,044**	43,453	**50,044**	43,453
(Reversal of impairment)/impairment	11	**(415)**	488	**(415)**	488
Loss on sale of property, plant and equipment		**2,719**	2,476	**2,719**	2,476
Release of government grants		**(472)**	(472)	**(472)**	(472)
Share-based payment expenses	20	**1,835**	1,994	**1,835**	1,994
Finance expense	6	**368**	26	**368**	26
Income tax expense	8	**15,039**	17,149	**15,039**	17,175
Increase in inventories		**(2,754)**	(490)	**(2,754)**	(490)
Increase in receivables		**(2,652)**	(3,066)	**(2,652)**	(3,066)
Increase in payables		**4,497**	11,845	**4,497**	11,845
Increase in provisions		**5,920**	277	**5,920**	277
Cash from operating activities		**134,470**	133,773	**134,470**	133,773

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 results of the associate are not consolidated on the grounds of materiality. 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 27 February 2018.

(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 03 to 70. The financial position of the Group, its cash flows and liquidity position are described in the financial review on pages 24 to 27. In addition, Note 2 to the accounts includes: the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The Group 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. There are no accounting standards, amendments or interpretations that have been adopted by the Group since 1 January 2017.

Going concern

Directors have reviewed the Company's operational and investment plans for the next 12 months 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 33 to 37 of the strategic report. In addition the financial review on pages 24 to 27 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 next 12 months. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Key estimates and judgements

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.

Treatment of items as exceptional

The accounts for both the current and the prior year include items 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. These items relate to the decision to invest in and reshape the Company's supply chain in order to support future growth. Judgement is required in ensuring that only items that relate directly to this activity are separately presented.

Dilapidation provisions

Dilapidation provisions have been included in the accounts based on a judgement of the future expected repair costs, required under the terms of the lease, to restore the Group's leased buildings to their fair condition at the end of their respective lease terms, where it is considered a reliable estimate can be made.

These provisions represent the best estimate of the liability at the balance sheet date. 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.

Significant accounting policies continued

(b) Basis of preparation continued

Key estimates and judgements continued

Realisable value 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 either value-in-use calculations or fair value less costs of disposal. Value-in-use calculations are based on 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 recoverable amount. Where it is concluded that the impairment has reduced, a reversal of the impairment is recorded.

The restructuring of supply chain operations in 2017, including the consolidation of production processes, gave rise to the need to evaluate the useful lives and realisable values of the assets used in the supply chain. The key judgements in assessing the recoverable amount for assets used in the supply chain, which are included in either land and buildings or plant and equipment within property, plant and equipment, are determining remaining useful economic lives or how assets would be priced by market participants.

The sensitivities for growth rate, discount rate and lease term used in testing shop assets, which are included in fixtures and fittings within property, plant and equipment, for impairment have been considered and are deemed not significant. For instance, a two per cent change in the growth rate would result in no change in the impairment charge.

The useful economic lives of items of property, plant and equipment are reviewed if events or changes in circumstances indicate that the assets are likely to become obsolete before the end of their current estimated life. If the asset is expected to become obsolete then consideration is given as to the likely remaining life of the asset, whether the asset can be reused in some other capacity and whether it has any residual recoverable value. Depreciation of the asset may be accelerated to take account of all of these judgements. During the year, the consolidation of production processes triggered a reassessment of the remaining useful economic lives of certain assets used in the supply chain. These assets, which previously had useful economic lives of up to ten years, are now depreciated on an accelerated basis over a ten to 28-month period.

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, mortality rates and commutation. Differences arising from actual experience or future changes in assumptions will be reflected in future years. The key assumptions made for 2017 are given in Note 20.

(c) Basis of consolidation

The consolidated accounts include the results of Greggs plc and its subsidiary undertakings for the 52 weeks ended 30 December 2017. The comparative period is the 52 weeks ended 31 December 2016.

(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) Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 per cent of the voting power of another entity. At the year end the Group has one associate which has not been consolidated on the grounds of materiality (see Note 12).

(iii) 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. Any future movements on items previously classified as exceptional will also be classified as exceptional.

(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 are 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 and direct labour.

(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 and associates 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.

Significant accounting policies continued

(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 re-measured 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 and reserves

(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 when the Company has an obligation to pay and the dividend is no longer at the Company's discretion.

(iii) Distributable reserves

All retained earnings are distributable and are the only such reserves.

(n) Employee share ownership plan

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

(o) Employee benefits

(i) 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) is 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 obligation 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.

(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

The Group provides for property dilapidations, where appropriate, based on the future expected repair costs required to restore the Group's leased buildings to their fair condition at the end of their respective lease terms, where it is considered a reliable estimate can be made.

(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. Additional franchise royalty fee income, generally calculated as a percentage of gross sales income, is recognised on an accruals basis in accordance with the relevant agreement. Pre-opening capital fit-out costs are recharged to the franchisee and represent a key performance obligation of the overall franchise sales agreement. These recharges are recognised as income on completion of the related fit-out.

(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.

Significant accounting policies continued

(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 profit 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. Taxable profit differs from profit as reported in the income statement because some items of income or expense are taxable or deductible in different years or may never be taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable in the future arising from temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used in the calculation of taxable profit. It is accounted for using the balance sheet liability method. 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:

- IFRS 9 Financial Instruments (effective date 1 January 2018)
- IFRS 15 Revenue from Contracts with Customers (effective date 1 January 2018)

None of these standards and amendments is expected to have a significant impact on the accounts when they are adopted. With regard to IFRS 9 the only area of relevance relates to provisions in respect of trade receivables. Given the immateriality of the Group's provision for bad debts no further analysis will be required. With regard to IFRS 15 the Group has considered all current revenue streams and concluded that none of them will require any change of treatment under the new standard.

IFRS 16 Leases was adopted by the EU on 31 October 2017. The effective date for implementation is 1 January 2019. The Group continues to work on a project to effect this implementation and be in a position to give a quantification of the impact by the end of 2018. The preferred software solution for the project has been selected and the Group plans to start work on the implementation of this in March 2018.

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. In addition to its retail activities, the Group generates revenues from franchise and wholesale. However, these elements of the business are not sufficiently significant to be 'Reportable Segments' in the context of IFRS 8.

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 regularly reviews the revenues of each segment separately but receives information on profits, assets and liabilities on an aggregated basis consistent with the Group accounts. Of the Group's revenue, £891,778,000 (2016: £835,786,000) was attributable to the retail segment.

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 model has been tested in various scenarios for the Group's viability statement which is included in the strategic report on page 81. 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 risk

The Group has low exposure to interest rate risk. Interest only arises on its bank deposits and overdrafts and the defined benefit pension scheme liability. Net financial expense in the year was £368,000 (2016: £26,000).

Equity price risk

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

Capital management

The Board defines capital as the equity of the Group. The Group has remained net cash positive with funding requirements met by cash generated from retail operations. The Board considers that it is not currently appropriate to take on structural debt given the inherent leverage of the leasehold shop estate and working capital requirements. 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 the business and the continuing determination to deliver value to shareholders. The Board would expect to return any material level of surplus capital to shareholders, likely by way of a special dividend.

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

Financial instruments

Group and Parent Company

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

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

Financial assets and liabilities

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

Other than trade and other payables, the Group had no financial liabilities within the scope of IAS 39 as at 30 December 2017 (2016: £nil).

2. Financial risk management continued

Financial instruments continued

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 rates.

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):

	2017 £'000	2016 £'000
Amortisation of intangible assets	**3,435**	2,100
Depreciation on owned property, plant and equipment	**50,044**	43,453
(Reversal of impairment)/impairment of owned property, plant and equipment	**(415)**	488
Loss on disposal of fixed assets	**2,719**	2,476
Release of government grants	**(472)**	(472)
Payments under operating leases – property rents	**50,933**	48,335
Research and development expenditure	**325**	325
Auditor's remuneration		
Audit of these accounts	**154**	150
Audit of pension schemes' accounts	**8**	10
Other services – tax advisory	**–**	3
All other services	**9**	15

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

4. Exceptional items

		2017 £'000	2016 £'000
Cost of sales			
Supply chain restructuring	– redundancy	**7,458**	3,028
	– gain on property disposal	**(403)**	–
	– depreciation and asset write-off	**1,245**	1,852
	– transfer of operations	**1,302**	44
	– property related	**458**	–
Prior year items	– dilapidations	**–**	(557)
		10,060	4,367
Distribution and selling			
Supply chain restructuring	– redundancy	**–**	1,108
	– transfer of operations	**–**	356
Prior year items	– property related	**(198)**	(870)
		(198)	594
Administrative expenses			
Restructuring of support functions		**–**	391
Prior year items	– redundancy	**–**	(175)
		–	216
Total exceptional items		**9,862**	5,177

Supply chain restructuring

This charge arises from the decisions, announced in 2016 and 2017, to invest in and reshape the Company's supply chain in order to support future growth. In 2017 the costs relate to the sale of one bakery site, including the gain on disposal, redundancy costs relating to the consolidation of production processes, accelerated depreciation and other contractual obligations that arise as a result of this consolidation. In 2016 the costs related to the closure of three bakery sites and included redundancy and other employment-related costs, asset write-offs, impairment and transfer and other contractual obligations that arose as a result of the closure of the sites.

Restructuring of support functions
This charge related to redundancy costs arising from the restructuring of bakery administration and payroll functions.

Prior year items
These relate to the movement on costs treated as exceptional in prior years and arise from the settlement of various property and redundancy transactions.

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

	2017 Number	2016 Number
Management	**711**	720
Administration	**461**	464
Production	**2,988**	3,028
Shop	**17,389**	16,369
	21,549	20,581

The aggregate costs of these persons were as follows:

	Note	2017 £'000	2016 £'000
Wages and salaries		**321,872**	301,105
Compulsory social security contributions		**22,535**	22,022
Pension costs – defined contribution plans	20	**11,258**	11,886
Equity-settled transactions (including employer's NI costs)	20	**2,575**	1,873
		358,240	336,886

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:

	2017 £'000	2016 £'000
Cost of sales	**2,395**	2,289
Distribution and selling costs	**5,710**	5,458
Administrative expenses	**1,106**	1,056
	9,211	8,803

For the purposes of IAS 24 'Related Party Disclosures', key management personnel comprises the Directors and the members of the Operating Board and their remuneration was as follows:

	2017 £'000	2016 £'000
Salaries and fees	**2,956**	2,597
Taxable benefits	**93**	94
Annual bonus (including profit share)	**1,350**	1,608
Post-retirement benefits	**352**	298
Share-based payments	**933**	1,136
	5,684	5,733

During the year the Company further considered the requirements of IAS 24 and decided that the definition of key management personnel should be extended to include the Operating Board. The figures for 2016 have been restated to reflect this wider definition.

The following amounts are disclosed in accordance with Schedule 5 of the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008.

	2017 £'000	2016 £'000
Aggregate Directors' remuneration	**1,820**	2,653
Aggregate amount of gains on exercise of share options	**1,374**	1,982
	3,194	4,635

The number of Directors in the defined contribution pension scheme and in the defined benefit pension scheme during the year was two (2016: two).

6. Finance expense

	Note	2017 £'000	2016 £'000
Interest income on cash balances		**46**	173
Foreign exchange gain/(loss)		**203**	(49)
Net interest related to defined benefit obligation	20	**(617)**	(150)
		(368)	(26)

7. Profit attributable to Greggs plc

Of the Group profit for the year, £56,906,000 (2016: £57,967,000) is dealt with in the accounts of the Parent Company. The Company has taken advantage of the exemption permitted by section 408 of the Companies Act 2006 from presenting its own income statement.

8. Income tax expense

Recognised in the income statement

	Excluding exceptional items 2017 £'000	Exceptional items 2017 £'000	Total 2017 £'000	Excluding exceptional items 2016 £'000	Exceptional items 2016 £'000	Total 2016 £'000
Current tax						
Current year	**18,902**	**(1,756)**	**17,146**	18,716	(767)	17,949
Adjustment for prior years	**(1,256)**	**–**	**(1,256)**	(946)	–	(946)
	17,646	**(1,756)**	**15,890**	17,770	(767)	17,003
Deferred tax						
Origination and reversal of temporary differences	**(457)**	**(128)**	**(585)**	(342)	(148)	(490)
Reduction in tax rate	**–**	**–**	**–**	239	–	239
Adjustment for prior years	**(266)**	**–**	**(266)**	397	–	397
	(723)	**(128)**	**(851)**	294	(148)	146
Total income tax expense in income statement	**16,923**	**(1,884)**	**15,039**	18,064	(915)	17,149

Reconciliation of effective tax rate

The tables below explain the differences between the expected tax expense calculated at the UK statutory rate of 19.25 per cent (2016: 20 per cent) and the actual tax expense for each year for both the total tax expense and the underlying tax expense, excluding the effect of exceptional items.

Total tax expense

	2017	2017 £'000	2016	2016 £'000
Profit before tax		**71,945**		75,142
Income tax using the domestic corporation tax rate	**19.25%**	**13,849**	20.0%	15,028
Expenses not deductible for tax purposes	**1.20%**	**882**	0.9%	697
Non-tax-deductible depreciation	**2.00%**	**1,425**	2.1%	1,554
Loss on disposal of non-tax-deductible assets	**0.45%**	**328**	0.1%	93
Impact of reduction in deferred tax rate	**0.10%**	**77**	0.4%	326
Adjustment for prior years	**(2.10%)**	**(1,522)**	(0.7%)	(549)
Total income tax expense in income statement	**20.90%**	**15,039**	22.8%	17,149

Underlying (excluding exceptional items)

	2017	2017 £'000	2016	2016 £'000
Profit before tax		**81,807**		80,319
Income tax using the domestic corporation tax rate	**19.25%**	**15,748**	20.0%	16,064
Expenses not deductible for tax purposes	**1.10%**	**882**	0.9%	697
Non-tax-deductible depreciation	**1.75%**	**1,425**	1.8%	1,473
Loss on disposal of non-tax-deductible assets	**0.40%**	**328**	0.1%	80
Impact of reduction in deferred tax rate	**0.10%**	**62**	0.4%	299
Adjustment for prior years	**(1.90%)**	**(1,522)**	(0.7%)	(549)
Total income tax expense in income statement	**20.70%**	**16,923**	22.5%	18,064

A reduction in the rate of corporation tax from 19 per cent to 17 per cent with effect from 1 April 2020 was substantively enacted on 6 September 2016. Any timing differences which reverse before 1 April 2020 will do so at 19 per cent and any timing differences which exist at 1 April 2020 will reverse at 17 per cent.

Tax recognised in other comprehensive income or directly in equity

	2017 Current tax £'000	2017 Deferred tax £'000	2017 Total £'000	2016 Total £'000
Debit/(credit):				
Relating to equity-settled transactions	–	**(895)**	**(895)**	5,128
Relating to defined benefit plans – re-measurement gains/(losses)	–	**2,714**	**2,714**	(3,194)
	–	**1,819**	**1,819**	1,934

The deferred tax movements in both the current and prior years relating to equity-settled transactions are in respect of share-based payments and arise primarily as a result of fluctuations in share price in the year and the stage of maturity of existing schemes.

9. Earnings per share

Basic earnings per share

Basic earnings per share for the 52 weeks ended 30 December 2017 is calculated by dividing profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the 52 weeks ended 30 December 2017 as calculated below.

Diluted earnings per share

Diluted earnings per share for the 52 weeks ended 30 December 2017 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 52 weeks ended 30 December 2017 as calculated below.

Profit attributable to ordinary shareholders

	2017 Excluding exceptional items £'000	2017 Exceptional items £'000	2017 Total £'000	2016 Excluding exceptional items £'000	2016 Exceptional items £'000	2016 Total £'000
Profit for the financial year attributable to equity holders of the Parent	**64,884**	**(7,978)**	**56,906**	62,255	(4,262)	57,993
Basic earnings per share	**64.5p**	**(7.9p)**	**56.6p**	62.0p	(4.2p)	57.8p
Diluted earnings per share	**63.5p**	**(7.8p)**	**55.7p**	60.8p	(4.1p)	56.7p

Weighted average number of ordinary shares

	2017 Number	2016 Number
Issued ordinary shares at start of year	**101,155,901**	101,155,901
Effect of own shares held	**(510,293)**	(710,295)
Weighted average number of ordinary shares during the year	**100,645,608**	100,445,606
Effect of share options on issue	**1,489,067**	1,921,344
Weighted average number of ordinary shares (diluted) during the year	**102,134,675**	102,366,950

10. Intangible assets

Group and Parent Company

	Software £'000	Assets under development £'000	Total £'000
Cost			
Balance at 3 January 2016	2,532	8,973	11,505
Additions	5,961	145	6,106
Transfers	7,968	(7,968)	–
Balance at 31 December 2016	16,461	1,150	17,611
Balance at 1 January 2017	**16,461**	**1,150**	**17,611**
Additions	**3,522**	**396**	**3,918**
Transfers	**762**	**(762)**	**–**
Balance at 30 December 2017	**20,745**	**784**	**21,529**
Amortisation			
Balance at 3 January 2016	1,257	–	1,257
Amortisation charge for the year	2,100	–	2,100
Balance at 31 December 2016	3,357	–	3,357
Balance at 1 January 2017	**3,357**	**–**	**3,357**
Amortisation charge for the year	**3,435**	**–**	**3,435**
Balance at 30 December 2017	**6,792**	**–**	**6,792**
Carrying amounts			
At 3 January 2016	1,275	8,973	10,248
At 31 December 2016	13,104	1,150	14,254
At 1 January 2017	**13,104**	**1,150**	**14,254**
At 30 December 2017	**13,953**	**784**	**14,737**

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

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 3 January 2016	126,999	129,764	267,707	11,168	535,638
Additions	7,710	13,446	50,724	2,435	74,315
Disposals	(3,427)	(9,083)	(29,898)	–	(42,408)
Transfers	9,075	2,094	–	(11,169)	–
Balance at 31 December 2016	140,357	136,221	288,533	2,434	567,545
Balance at 1 January 2017	**140,357**	**136,221**	**288,533**	**2,434**	**567,545**
Additions	**7,606**	**10,246**	**40,586**	**8,037**	**66,475**
Disposals	**(2,501)**	**(10,022)**	**(22,398)**	**–**	**(34,921)**
Transfers	**1,748**	**686**	**–**	**(2,434)**	**–**
Balance at 30 December 2017	**147,210**	**137,131**	**306,721**	**8,037**	**599,099**
Depreciation					
Balance at 3 January 2016	36,019	87,650	127,806	–	251,475
Depreciation charge for the year	2,949	11,250	29,254	–	43,453
Impairment charge for the year	436	–	624	–	1,060
Impairment release for the year	–	–	(572)	–	(572)
Disposals	(1,423)	(8,409)	(25,402)	–	(35,234)
Balance at 31 December 2016	37,981	90,491	131,710	–	260,182
Balance at 1 January 2017	**37,981**	**90,491**	**131,710**	**–**	**260,182**
Depreciation charge for the year	**3,770**	**12,022**	**34,252**	**–**	**50,044**
Impairment charge for the year	**–**	**–**	**104**	**–**	**104**
Impairment release for the year	**–**	**–**	**(519)**	**–**	**(519)**
Disposals	**(1,569)**	**(9,203)**	**(19,135)**	**–**	**(29,907)**
Transfers	**(164)**	**164**	**–**	**–**	**–**
Balance at 30 December 2017	**40,018**	**93,474**	**146,412**	**–**	**279,904**
Carrying amounts					
At 3 January 2016	90,980	42,114	139,901	11,168	284,163
At 31 December 2016	102,376	45,730	156,823	2,434	307,363
At 1 January 2017	**102,376**	**45,730**	**156,823**	**2,434**	**307,363**
At 30 December 2017	**107,192**	**43,657**	**160,309**	**8,037**	**319,195**

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 ten per cent, as an approximation to that for each individual unit, 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 recoverable amount which is generally deemed to be £nil.

11. Property, plant and equipment continued
Parent Company

	Land and buildings £'000	Plant and equipment £'000	Fixtures and fittings £'000	Assets under construction £'000	Total £'000
Cost					
Balance at 3 January 2016	127,509	130,297	268,195	11,168	537,169
Additions	7,710	13,446	50,724	2,435	74,315
Disposals	(3,427)	(9,083)	(29,898)	–	(42,408)
Transfers	9,075	2,094	–	(11,169)	–
Balance at 31 December 2016	140,867	136,754	289,021	2,434	569,076
Balance at 1 January 2017	**140,867**	**136,754**	**289,021**	**2,434**	**569,076**
Additions	**7,606**	**10,246**	**40,586**	**8,037**	**66,475**
Disposals	**(2,501)**	**(10,022)**	**(22,398)**	**–**	**(34,921)**
Transfers	**1,748**	**686**	**–**	**(2,434)**	**–**
Balance at 30 December 2017	**147,720**	**137,664**	**307,209**	**8,037**	**600,630**
Depreciation					
Balance at 3 January 2016	36,296	87,920	128,197	–	252,413
Depreciation charge for the year	2,949	11,250	29,254	–	43,453
Impairment charge for the year	436	–	624	–	1,060
Impairment release for the year	–	–	(572)	–	(572)
Disposals	(1,423)	(8,409)	(25,402)	–	(35,234)
Balance at 31 December 2016	38,258	90,761	132,101	–	261,120
Balance at 1 January 2017	**38,258**	**90,761**	**132,101**	**–**	**261,120**
Depreciation charge for the year	**3,770**	**12,022**	**34,252**	**–**	**50,044**
Impairment charge for the year	**–**	**–**	**104**	**–**	**104**
Impairment release for the year	**–**	**–**	**(519)**	**–**	**(519)**
Disposals	**(1,569)**	**(9,203)**	**(19,135)**	**–**	**(29,907)**
Transfers	**(164)**	**164**	**–**	**–**	**–**
Balance at 30 December 2017	**40,295**	**93,744**	**146,803**	**–**	**280,842**
Carrying amounts					
At 3 January 2016	91,213	42,377	139,998	11,168	284,756
At 31 December 2016	102,609	45,993	156,920	2,434	307,956
At 1 January 2017	**102,609**	**45,993**	**156,920**	**2,434**	**307,956**
At 30 December 2017	**107,425**	**43,920**	**160,406**	**8,037**	**319,788**

Land and buildings
The carrying amount of land and buildings comprises:

	Group		Parent Company	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
Freehold property	**105,576**	100,725	**105,809**	100,958
Short leasehold property	**1,616**	1,651	**1,616**	1,651
	107,192	102,376	**107,425**	102,609

12. Investments

Non-current investments

Parent Company

	Shares in subsidiary undertakings £'000
Cost	
Balance at 3 January 2016, 31 December 2016 and 30 December 2017	**5,828**
Impairment	
Balance at 3 January 2016, 31 December 2016 and 30 December 2017	**841**
Carrying amount	
Balance at 3 January 2016, 31 December 2016, 1 January 2017 and 30 December 2017	**4,987**

The undertakings in which the Company's interest at the year end is more than 20 per cent are as follows:

	Principal activity	Address of registered office	Proportion of voting rights and shares held
Charles Bragg (Bakers) Limited	Non-trading	1	100%
Greggs (Leasing) Limited	Dormant	1	100%
Thurston Parfitt Limited	Non-trading	1	100%
Greggs Properties Limited	Property holding	1	100%
Olivers (U.K.) Limited	Dormant	2	100%
Olivers (U.K.) Development Limited*	Non-trading	2	100%
Birketts Holdings Limited	Dormant	1	100%
J.R. Birkett and Sons Limited*	Non-trading	1	100%
Greggs Trustees Limited	Trustees	1	100%
Solstice Zone A Management Company Limited	Non-trading	3	28%

Notes:

* Held indirectly.

1 Greggs House, Quorum Business Park, Newcastle upon Tyne NE12 8BU.

2 Clydesmill Bakery, 75 Westburn Drive, Clydesmill Estate, Cambuslang, Glasgow G72 7NA.

3 The Abbey, Preston, Yeovil, Somerset BA20 2EN.

Solstice Zone A Management Company Limited was not consolidated on the grounds of materiality.

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

13. Deferred tax assets and liabilities

Group

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000	**2017 £'000**	2016 £'000
Property, plant and equipment	**–**	–	**(3,837)**	(4,695)	**(3,837)**	(4,695)
Employee benefits	**4,044**	6,397	**–**	–	**4,044**	6,397
Short-term temporary differences	**575**	48	**–**	–	**575**	48
Tax assets/(liabilities)	**4,619**	6,445	**(3,837)**	(4,695)	**782**	1,750

13. Deferred tax assets and liabilities continued

Group continued

The movements in temporary differences during the year ended 31 December 2016 were as follows:

	Balance at 3 January 2016 £'000	Recognised in income £'000	Recognised in equity £'000	Balance at 31 December 2016 £'000
Property, plant and equipment	(5,080)	385	–	(4,695)
Employee benefits	8,878	(547)	(1,934)	6,397
Short-term temporary differences	32	16	–	48
	3,830	(146)	(1,934)	1,750

The movements in temporary differences during the year ended 30 December 2017 were as follows:

	Balance at 1 January 2017 £'000	Recognised in income £'000	Recognised in equity £'000	**Balance at 30 December 2017 £'000**
Property, plant and equipment	(4,695)	858	–	**(3,837)**
Employee benefits	6,397	(534)	(1,819)	**4,044**
Short-term temporary differences	48	527	–	**575**
	1,750	851	(1,819)	**782**

Parent Company

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000	**2017 £'000**	2016 £'000
Property, plant and equipment	**–**	–	**(3,388)**	(4,246)	**(3,388)**	(4,246)
Employee benefits	**4,044**	6,397	**–**	–	**4,044**	6,397
Short-term temporary differences	**575**	48	**–**	–	**575**	48
Tax assets/(liabilities)	**4,619**	6,445	**(3,388)**	(4,246)	**1,231**	2,199

The movements in temporary differences during the year ended 31 December 2016 were as follows:

	Balance at 3 January 2016 £'000	Recognised in income £'000	Recognised in equity £'000	Balance at 31 December 2016 £'000
Property, plant and equipment	(4,605)	359	–	(4,246)
Employee benefits	8,878	(547)	(1,934)	6,397
Short-term temporary differences	32	16	–	48
	4,305	(172)	(1,934)	2,199

The movements in temporary differences during the year ended 30 December 2017 were as follows:

	Balance at 1 January 2017 £'000	Recognised in income £'000	Recognised in equity £'000	**Balance at 30 December 2017 £'000**
Property, plant and equipment	(4,246)	858	–	**(3,388)**
Employee benefits	6,397	(534)	(1,819)	**4,044**
Short-term temporary differences	48	527	–	**575**
	2,199	851	(1,819)	**1,231**

14. Inventories

	Group and Parent Company	
	2017 £'000	2016 £'000
Raw materials and consumables	**13,330**	12,375
Work in progress	**5,358**	3,559
	18,688	15,934

15. Trade and other receivables

	Group and Parent Company	
	2017 £'000	2016 £'000
Trade receivables	**11,833**	12,250
Other receivables	**4,921**	4,741
Prepayments	**16,611**	13,722
	33,365	30,713

At 30 December 2017 trade receivables are shown net of an allowance for bad debts of £24,000 (2016: £46,000) 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	
	2017 £'000	2016 £'000
Not past due date	**9,897**	11,563
Past due 1-30 days	**1,923**	149
Past due 31-90 days	**11**	458
Past due over 90 days	**2**	80
	11,833	12,250

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.

16. Cash and cash equivalents

	Group and Parent Company	
	2017 £'000	2016 £'000
Cash and cash equivalents	**54,503**	45,960

17. Trade and other payables

	Group		Parent Company	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
Trade payables	**48,207**	49,482	**48,207**	49,482
Amounts owed to subsidiary undertakings	**–**	–	**7,807**	7,807
Other taxes and social security	**7,378**	7,143	**7,378**	7,143
Other payables	**33,325**	28,744	**33,325**	28,744
Accruals and deferred income	**17,748**	19,087	**17,748**	19,087
Deferred Government grants	**468**	468	**468**	468
	107,126	104,924	**114,933**	112,731

18. Current tax liability

The current tax liability of £8,714,000 in the Group and the Parent Company (2016: Group and Parent Company £10,426,000) 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	
	2017 £'000	2016 £'000
Deferred Government grants	**5,127**	5,599

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.

20. Employee benefits

Defined benefit plan

Scheme background

The Company sponsors a funded final salary 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 2017 and showed a surplus. The Company is currently not required to pay contributions into the scheme.

Profile of the scheme

The defined benefit obligation includes benefits for former employees and current pensioners. Broadly, two-thirds of the liabilities are attributable to deferred members and one-third 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	
	2017 £'000	2016 £'000
Defined benefit obligation	**(122,244)**	(131,373)
Fair value of plan assets	**114,738**	108,522
Net defined benefit liability	**(7,506)**	(22,851)

Liability for defined benefit obligations

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

	Group and Parent Company 2017 £'000	Group and Parent Company 2016 £'000
Opening defined benefit obligation	**131,373**	102,918
Interest cost	**3,483**	3,871
Re-measurement (gains)/losses:		
– changes in mortality assumptions	**(4,879)**	–
– changes in commutation assumptions	**(7,010)**	–
– changes in financial assumptions	**3,770**	29,387
– experience	**953**	(699)
Benefits paid	**(5,446)**	(4,104)
	122,244	131,373

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

	Group and Parent Company 2017 £'000	Group and Parent Company 2016 £'000
Opening fair value of plan assets	**108,522**	99,008
Net interest on plan assets	**2,866**	3,721
Re-measurement gains	**8,796**	9,897
Benefits paid	**(5,446)**	(4,104)
Closing fair value of plan assets	**114,738**	108,522

The costs charged in the income statement are as follows:

	Group 2017 £'000	Group 2016 £'000
Interest expense on net defined benefit liability	**617**	150

The amounts recognised in other comprehensive income are as follows:

	Group 2017 £'000	Group 2016 £'000
Re-measurement gains/(losses) on defined benefit pension plans	**15,962**	(18,791)

Cumulative re-measurement gains and losses reported in the consolidated statement of comprehensive income since 28 December 2003, the transition date to adopted IFRSs, for the Group and the Parent Company are net losses of £24,048,000 (2016: net losses of £40,010,000).

The fair value of the plan assets is as follows:

	Group and Parent Company 2017 £'000	Group and Parent Company 2016 £'000
Equities – UK	**40,494**	40,239
– overseas	**45,329**	42,740
Bonds – corporate	**16,230**	13,747
– government	**3,564**	3,606
Absolute return funds	**5,486**	7,280
Cash and cash equivalents/other	**3,635**	910
	114,738	108,522

20. Employee benefits continued

Defined benefit plan continued

Liability for defined benefit obligations continued

Principal actuarial assumptions (expressed as weighted averages):

	Group and Parent Company	
	2017	2016
Discount rate	**2.50%**	2.70%
Future salary increases	**n/a**	n/a
Future pension increases	**1.7% – 2.45%**	1.7% – 2.45%

Mortality assumption

Mortality in retirement is assumed to be in line with the S2PXA tables using CMI_2016 projections and a long-term rate of 1.25 per cent per annum. Under these assumptions, pensioners aged 65 now are expected to live for a further 22.1 years (2016: 22.5 years) if they are male and 24.0 years (2016: 24.5 years) if they are female. Members currently aged 45 are expected to live for a further 23.9 years (2016: 24.4 years) from age 65 if they are male and for a further 25.5 years (2016: 26.5 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	£2.6m decrease
Inflation	0.1% decrease	£1.6m decrease
Mortality rates	1 year decrease	£5.2m decrease

Commutation assumption

The assumptions have been reviewed during the year. In order to reflect the levels of commutation being experienced by the scheme, an allowance has now been included in the valuation for commutation. The assumption adopted is that 90% of deferred members will opt to commute 25% of their pension at retirement. The commutation factors used for members aged 65 are 14.00 for males and 15.11 for females. The adoption of this assumption in respect of commutation has resulted in a decrease in the defined benefit obligation of £7,010,000.

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

The triennial valuation of the scheme took place in April 2017. The outcome of that valuation was considered by the Trustees and the Company and no requirement for future contributions was identified.

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 £11,258,000 (2016: £11,886,000) in the year.

Share-based payments – Group and Parent Company

The Group has established a Savings Related Share Option Scheme, an Executive Share Option Scheme and a Performance Share Plan.

The terms and conditions of the grants for these schemes 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 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 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
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
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
Performance Share Plan 5	March 2014	Senior executives	£nil	224,599	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
Executive Share Option Scheme 18	March 2015	Senior employees	1022p	298,045	Three years' service and EPS growth of 1-7% over RPI on average over those three years	10 years
Executive Share Option Scheme 18a	May 2015	Senior employee	1056p	3,285	Three years' service and EPS growth of 1-7% over RPI on average over those three years	10 years
Performance Share Plan 6	March 2015	Senior executives	£nil	146,174	Three years' service, EPS annual compound growth of 1-7% over RPI over those three years and average annual ROCE of 19-21.5% over those three years	10 years
Savings Related Share Option Scheme 16	April 2015	All employees	818p	391,979	Three years' service	3.5 years

20. Employee benefits continued

Share-based payments – Group and Parent Company continued

	Date of grant	Employees entitled	Exercise price	Number of shares granted	Vesting conditions	Contractual life
Performance Share Plan 7	March 2016	Senior executives	£nil	133,271	Three years' service, EPS average annual growth of 2-8% over RPI over those three years and average annual ROCE of 22-27% over those three years	10 years
Executive Share Option Scheme 19	April 2016	Senior employees	1088p	235,857	Three years' service and EPS growth of 2-8% over RPI on average over those three years	10 years
Savings Related Share Option Scheme 17	April 2016	All employees	870p	361,853	Three years' service	3.5 years
Performance Share Plan 8	May 2017	Senior executives	£nil	206,404	Three years' service, EPS average annual growth of 5-11% over those three years and average annual ROCE of 23-27% over those three years	10 years
Executive Share Option Scheme 20	April 2017	Senior employees	1033p	246,219	Three years' service and EPS growth of 5-11% on average over those three years	10 years
Savings Related Share Option Scheme 18	April 2017	All employees	807p	403,560	Three years' service	3.5 years

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

	2017		2016	
	Weighted average exercise price	**Number of options**	Weighted average exercise price	Number of options
Outstanding at the beginning of the year	**548p**	**3,521,408**	446p	4,033,559
Lapsed during the year	**848p**	**(165,172)**	662p	(106,112)
Exercised during the year	**374p**	**(1,318,930)**	324p	(1,137,020)
Granted during the year	**677p**	**856,183**	782p	730,981
Outstanding at the end of the year	**649p**	**2,893,489**	548p	3,521,408
Exercisable at the end of the year	**419p**	**685,933**	399p	582,327

The options outstanding at 30 December 2017 have an exercise price in the range of £nil to £10.88 and have a weighted average contractual life of 5.5 years. The options exercised during the year had a weighted average market value of £11.19 (2016: £10.93).

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 all Savings Related Share Option Schemes and Executive Share Option Schemes and for Performance Share Plan options granted from 2014 onwards. The Monte Carlo option pricing model was used for Performance Share Plans granted prior to 2014. The fair value per option granted and the assumptions used in these calculations are as follows:

	2017			2016		
	Performance Share Plan 8 May 2017	**Executive Share Option Scheme 20 April 2017**	**Savings Related Share Option Scheme 18 April 2017**	Performance Share Plan 7 March 2016	Executive Share Option Scheme 19 April 2016	Savings Related Share Option Scheme 17 April 2016
Fair value at grant date	**981p**	**165p**	**238p**	971p	177p	263p
Share price	**1072p**	**1033p**	**807p**	1102p	1088p	870p
Exercise price	**nil**	**1033p**	**1009p**	nil	1088p	1087p
Expected volatility	**30.25%**	**30.25%**	**30.09%**	29.5%	29.4%	28.8%
Option life	**3 years**	**3 years**	**3 years**	3 years	3 years	3 years
Expected dividend yield	**2.95%**	**3.00%**	**3.07%**	2.60%	2.63%	2.66%
Risk-free rate	**0.17%**	**0.17%**	**0.14%**	0.55%	0.48%	0.66%

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:

	2017 £'000	2016 £'000
Share options granted in 2013	**–**	134
Share options granted in 2014	**178**	639
Share options granted in 2015	**748**	820
Share options granted in 2016	**482**	401
Share options granted in 2017	**427**	–
Total expense recognised as employee costs	**1,835**	1,994

21. Provisions

	Group and Parent Company									
	2017 Dilapidations £'000	**2017 Onerous leases £'000**	**2017 Redundancy £'000**	**2017 Other £'000**	**2017 Total £'000**	2016 Dilapidations £'000	2016 Onerous leases £'000	2016 Redundancy £'000	2016 Other £'000	2016 Total £'000
Balance at start of year	**3,243**	**1,819**	**1,438**	**1,014**	**7,514**	3,343	2,289	–	1,605	7,237
Additional provision in the year:										
– ordinary	**1,954**	**206**	**–**	**1,513**	**3,673**	1,611	690	–	22	2,323
– exceptional	**–**	**10**	**7,349**	**–**	**7,359**	72	–	3,964	–	4,036
Utilised in year:										
– ordinary	**(940)**	**(352)**	**–**	**(574)**	**(1,866)**	(426)	(306)	–	(470)	(1,202)
– exceptional	**(95)**	**(81)**	**(1,583)**	**–**	**(1,759)**	(209)	(268)	(2,526)	–	(3,003)
Provisions reversed during the year:										
– ordinary	**(1,152)**	**(175)**	**–**	**–**	**(1,327)**	(586)	(200)	–	(143)	(929)
– exceptional	**(54)**	**(106)**	**–**	**–**	**(160)**	(562)	(386)	–	–	(948)
Balance at end of year	**2,956**	**1,321**	**7,204**	**1,953**	**13,434**	3,243	1,819	1,438	1,014	7,514
Included in current liabilities	**2,689**	**379**	**7,204**	**1,818**	**12,090**	2,899	866	1,438	885	6,088
Included in non-current liabilities	**267**	**942**	**–**	**135**	**1,344**	344	953	–	129	1,426
	2,956	**1,321**	**7,204**	**1,953**	**13,434**	3,243	1,819	1,438	1,014	7,514

The provisions at the end of the year relates to ordinary or exceptional activity as follows:

Ordinary	**2,619**	**713**	**–**	**1,953**	**5,285**	2,757	1,034	–	1,014	4,805
Exceptional	**337**	**608**	**7,204**	**–**	**8,149**	486	785	1,438	–	2,709
	2,956	**1,321**	**7,204**	**1,953**	**13,434**	3,243	1,819	1,438	1,014	7,514

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. Included within the provision is £607,000 (2016: £607,000) in respect of possible recourse on leases which have been conditionally assigned.

The provision for redundancy costs arises from the supply chain restructuring described in Note 4.

Other provisions relate predominantly to national insurance costs on future share option exercises.

The majority of all of the provisions are expected to be utilised within four years such that the impact of discounting would not be material.

22. Capital and reserves

Share capital

	Ordinary shares	
	2017 Number	2016 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 £28,327,000 (2016: £22,333,000) 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 504,215 shares (2016: 878,235 shares) with a market value at 30 December 2017 of £7,054,000 (2016: £8,519,000) which have not vested unconditionally in employees. During the year the Trust purchased 986,150 shares for an aggregate consideration of £11,352,000 and sold 1,360,170 shares for an aggregate consideration of £5,358,000.

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 Scheme and Greggs Performance Share Plan or by the trustees of the Greggs Employee Share Scheme. The trustees have elected to waive the dividends payable on these shares.

Dividends

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

	2017 Per share pence	2016 Per share pence
2015 final dividend	**–**	21.2p
2016 interim dividend	**–**	9.5p
2016 final dividend	**21.5p**	–
2017 interim dividend	**10.3p**	–
	31.8p	30.7p

The proposed final dividend in respect of 2017 amounts to 22.0 pence per share (£22,142,000). This proposed dividend is subject to approval at the Annual General Meeting and has not been included as a liability in these accounts.

	2017 £'000	2016 £'000
2015 final dividend	**–**	21,326
2016 interim dividend	**–**	9,610
2016 final dividend	**21,768**	–
2017 interim dividend	**10,419**	–
	32,187	30,936

23. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2017 £'000 Property	2017 £'000 Equipment	2017 £'000 Total	2016 £'000 Property	2016 £'000 Equipment	2016 £'000 Total
Less than one year	**39,751**	**2,005**	**41,756**	37,896	2,057	39,953
Between one and five years	**90,070**	**2,949**	**93,019**	82,492	3,672	86,164
More than five years	**15,866**	**–**	**15,866**	14,230	–	14,230
	145,687	**4,954**	**150,641**	134,618	5,729	140,347

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; 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 buildings. 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 buildings it is judged that substantially all the risks and rewards of the land and buildings are with the landlord. Based on these qualitative factors it is concluded that the leases are operating leases.

24. Capital commitments

During the year ended 30 December 2017, the Group entered into contracts to purchase property, plant and equipment and intangible assets for £10,098,000 (2016: £1,268,000). These commitments are expected to be settled in the following financial year.

25. Related parties

Identity of related parties

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

Trading transactions with subsidiaries – Group

There have been no transactions between the Company and its subsidiaries or associates during the year (2016: £nil).

Trading transactions with subsidiaries – Parent Company

	Amounts owed to related parties		Amounts owed by related parties	
	2017 £'000	2016 £'000	2017 £'000	2016 £'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 £900,000 (2016: £860,000), as well as passing on £697,000 (2016: £715,000) raised from the sale of carrier bags and £303,000 (2016: £193,000) raised from the sale of products. The Greggs Foundation holds 300,000 shares in Greggs plc and Richard Hutton, a Director of Greggs plc is a trustee of the Greggs Foundation.

Transactions with key management personnel

Details of Directors' shareholdings, share options, emoluments, pension benefits and other non-cash benefits can be found in the Directors' Remuneration report on pages 54 to 69. Summary information on remuneration of key management personnel is included in Note 5.

26. Events after the reporting period

As noted in the financial review on page 25 the Company has, subsequent to the year end, exchanged contracts for the disposal of the vacant Twickenham site. The disposal is conditional on a number of factors, including the application for and successful grant of planning permission, none of which are expected to be resolved in the 2018 financial year, and therefore this asset continues to be classified as non-current. At this stage the total proceeds arising from supply chain site disposals are still expected to be in line with those anticipated in the investment plan.

TEN-YEAR HISTORY

	2008	2009[1]	2010[1]	2011	2012 (as restated)[3]	2013	2014 (as restated)[1,4]	2015[1]	2016	**2017**
Turnover (£'m)	628.2	658.2	662.3	701.1	734.5	762.4	806.1	835.7	894.2	**960.0**
Total sales growth (%)	7.1%	4.8%	0.6%	5.8%	4.8%	3.8%	5.7%	3.7%	7.0%	**7.4%**
company-managed shop like-for-like sales growth (%)	4.4%	0.8%	0.2%	1.4%	(2.7%)	(0.8%)	4.5%	4.7%	4.2%	**3.7%**
Earnings before interest and tax (EBIT) excluding exceptional items (£'m)	44.3	48.4	52.4	53.0	51.3	41.5	58.1	73.1	80.3	**82.2**
EBIT margin excluding exceptional items (%)	7.1%	7.4%	7.9%	7.6%	7.0%	5.4%	7.2%	8.7%	9.0%	**8.6%**
Pre-tax exceptional (charge)/credit (£'m)	4.3	–	–	7.4	1.4	(8.1)	(8.5)	–	(5.2)	**(9.9)**
Profit on ordinary activities including exceptional items and before tax (£'m)	49.5	48.8	52.5	60.5	52.4	33.2	49.7	73.0	75.1	**71.9**
Diluted earnings per share excluding exceptional items (pence)	30.6	34.0	37.3	38.8	38.3	30.6	43.4	55.8	60.8	**63.5**
Dividend per share (pence)[2]	14.9	16.6	18.2	19.3	19.5	19.5	22.0	48.6[5]	31.0	**32.3**
Total shareholder return (%)	(22%)	29%	11%	13%	(6%)	1%	70%	87.1%	(23.4%)	**47.4%**
Capital expenditure (£'m)	40.8	30.3	45.6	59.1	46.9	47.6	48.9	71.7	80.4	**70.4**
Return on capital employed	26.2%	25.9%	25.9%	24.4%	21.3%	16.4%	22.4%	26.8%	28.1%	**26.9%**
Number of shops in operation at year end	1,409	1,419	1,487	1,571	1,671	1,671	1,650	1,698	1,764	**1,854**

Notes:
1 2009 and 2014 were 53 week years, impacting on total sales growth for that year and the year immediately following.
2 All years prior to 2009 adjusted to take account of the ten-for-one share split which took place during 2009.
3 Reestated following the adoption of IAS 19 (Revised).
4 Restated to include revenue in respect of franchise fit-out costs.
5 Includes a special dividend of 20p.

All of the non-GAAP measures detailed above can be calculated from the GAAP measures included in the annual accounts with the exception of those detailed below.

Calculation of alternative performance measures

Like-for-like (LFL) sales growth – compares year-on-year cash sales in our company-managed shops, excluding any shops which opened, relocated or closed in the current or prior year and is calculated as follows:

	2017 £'000	2016 £'000
Current year LFL sales	**817,533**	777,204
Prior year LFL sales	**788,510**	745,609
Growth	**29,023**	31,595
LFL sales growth percentage	**3.7%**	4.2%

Return on capital employed – calculated by dividing profit before tax by the average total assets less current liabilities for the year.

	2017 Underlying £'000	**2017 Including exceptional items £'000**	2016 Underlying £'000	2016 Including exceptional items £'000
Profit before tax	**81,807**	**71,945**	80,319	75,142
Capital employed:				
Opening	**294,536**	**294,536**	277,622	277,622
Closing	**313,340**	**313,340**	294,536	294,536
Average	**303,938**	**303,938**	286,079	286,079
Return on capital employed	**26.9%**	**23.7%**	28.1%	26.3%

NOTES

NOTES

FINANCIAL CALENDAR

Announcement of results and dividends

Half year	Late July
Full year	Early March

Dividends

Interim	Mid-October
Final	18 May 2018

Annual report posted to shareholders	Late March
Annual General Meeting	9 May 2018

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