GREGGS

Delivering our strategy

Greggs plc Annual Report and Accounts 2018

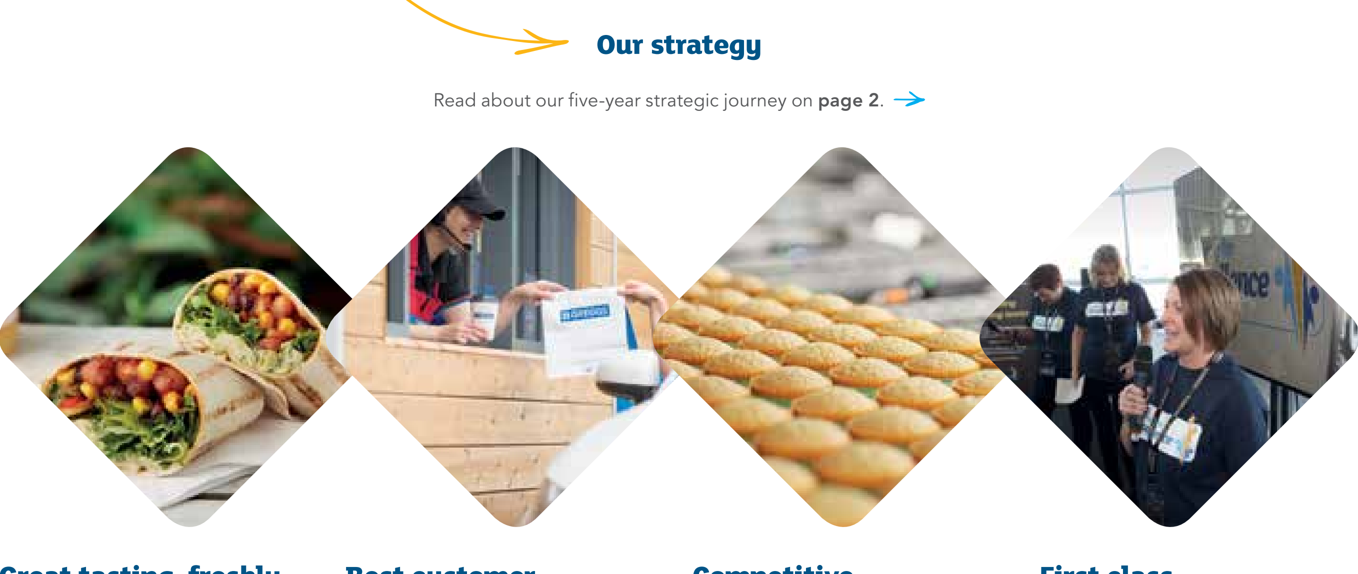
We've come a long way since we started out 80 years ago, and it's time for us to celebrate who we are today – a modern food-on-the-go brand that stands for so much more than sausage rolls!

Having spent the past five years investing significantly in our business, we're in a healthier place than ever, and excited about what the future holds for Greggs in the fast-moving and dynamic food-on-the-go market.

We're well positioned to achieve our ambition to become the customers' favourite for food-on-the-go, because put simply: We offer good, honest food that our customers can trust, at affordable prices.

Our strategy

Read about our five-year strategic journey on **page 2**.



Great tasting, freshly prepared food

Read more on **page 18**.

Best customer experience

Read more on **page 20**.

Competitive supply chain

Read more on **page 22**.

First class support teams

Read more on **page 24**.

Strategic Report

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A YEAR IN A BILLION!

It's been a roller coaster of a year for Greggs. In early 2018, the 'Beast from the East' knocked the business off course, followed by the hottest summer on record since 1976 – which meant the Great British public were more likely to be buying ice creams than sausage rolls.

Despite the unprecedented weather conditions, 2018 has been a great year for the business, one that has seen us develop best-selling products and open high-performing shops. We have also centralised our cake, doughnut, pizza and bread roll production lines, whilst continually finding new ways to improve the fast and friendly service our customers love.

In December we reached a major milestone in Greggs history, breaking through the £1 billion annual sales barrier for the first time. This is a fantastic achievement by the whole business, and we are proud to be reporting a fifth consecutive year of like-for-like growth and record profits.

HIGHLIGHTS

	Underlying excluding exceptional items	Total including exceptional items
Total sales	£1,029m +7.2%	£1,029m +7.2%
Company-managed shop like-for-like (LFL) sales growth	2.9%	2.9%
Pre-tax profit	£89.8m +9.8%	£82.6m +14.3%
Diluted EPS	70.3p	64.5p
Ordinary dividend	35.7p	35.7p
Return on capital employed	27.4%	25.2%

- **Underlying excluding exceptional items** **(see note 4 on page 93)**
- Total including exceptional items

Detailed calculations of Alternative Performance Measures, not otherwise shown in the income statement and related notes, are detailed on page 110.

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

A lot has changed in the past five years…

Our transformation from bakery to food-on-the-go began in 2013, and the process of creating a centralised, fully-integrated business capable of supporting 2,500 shops is nearing completion, with just two years left to go. Whilst this has required a once-in-a-generation level of capital investment and business change, it has already delivered results and helped our customers realise we're so much more than sausage rolls! The result – a resilient brand, better able to cope with an unpredictable retail environment and economic uncertainty.

IMPROVED
Our new Fairtrade coffee blend delights customers at taste tests

2013

£25M
investment to centralise systems and processes announced

Calorie information is made available at the point of purchase for our entire national range

1,671
shops across seven regions

Photovoltaic panels installed on bakery roofs

2014

7
regions become four

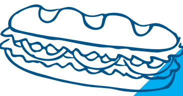
In-store bakeries decommissioned

1ST
Euro Garages franchise shop opens

GREGGS REWARDS
arrives and wins lots of awards

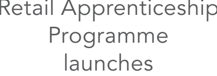
25%
in bakery food-on-the-go format

80%
on the high street



NEW healthier range offers customers a 'Balanced Choice'

Greggs awarded the Good Egg Award by Compassion in World Farming, for changing all of our whole eggs to free range supply



New workforce and supplier relationship management software delivers benefits beyond expectations

Retail Apprenticeship Programme launches

1,698

Our shop estate returns to net shop growth

We move from 'Tier Five' to 'Tier Three' on the Business Benchmark for Farm Animal Welfare

2015

100% of Greggs palm oil now comes from sustainable sources

Shop transformation programme ramps up

Breakfast and Balanced Choice ranges extended and hot food menu refreshed

25%

Our 2010 ambition to reduce carbon emissions intensity by 25%, by 2015 is achieved

A partnership with Applegreen takes us to Northern Ireland for the first time

Our strategic journey

Our Fairtrade Flat White and gluten-free options prove to be welcome additions to our menu

Get 'Greggs Delivered' to your door (office door that is, in Newcastle)

10
We celebrate our ten-year partnership anniversary with Children in Need (today we have raised almost £9 million for this annual appeal)

All of our tuna now comes from sustainable sources and we achieve 'Tier Two' on the BBFAW

200TH
We celebrated opening our 200th franchise shop

We created Centres of Excellence in Glasgow and Leeds, and closed Edinburgh Bakery

LARGEST-EVER SYSTEMS ROLL-OUT
Traditional shop ordering replaced with a new central forecasting and replenishment process

2016

2017

Twickenham Bakery closes

£100M
investment programme to reshape Greggs supply chain announced

CEO
Roger Whiteside joins the Women's Business Council

80%
of shops now open by 7am, Monday to Friday

1ST
Our first company-managed shop opens in Northern Ireland

A new Distribution Centre, with the capacity to supply 450 shops, opens in Enfield

SAP Finance implemented

30TH
Greggs Foundation celebrates its 30th birthday

1ST
Our first Drive-Thru opens in Irlam

↓ 5%
Sweet range reformulated in line with Public Health England's year one sugar reduction target

1,953
shops

92%
in bakery food-on-the-go format

Awarded 4.5 star rating on BITC's CR Index

63%
on the high street

We created Centres of Excellence in Manchester, Leeds and Newcastle, and closed Norwich Bakery

500TH
Breakfast Club opens

B2C and B2B gifting channels create new ways for customers to shop with us

1ST
vegan-friendly product launched and our famous vegan sausage roll developed

SAP HR, and real estate software implemented

2018

Greggs now delivers to your home in Birmingham, Newcastle, Bristol and London

36%
of sales are now from new strategic categories

Shops opened in exciting high-profile transport locations

£1BN
We break through the £1 billion annual sales mark for the first time

90%
of shops open by 7am, Monday to Friday

`Click and Collect' trialled in Manchester

Peak year of investment in systems and supply chain

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

Greggs is a strong and trusted brand that goes way back. However, to become the customers' favourite for food-on-the-go, we knew that we had to get people thinking and feeling differently about us. To achieve this we put our customers at the heart of our strategy…

Our vision: To become the customers' favourite for food-on-the-go.

Our purpose

Behind the golden puff pastry and freshly made sandwiches we've always been committed to doing the right thing. Way back in the sixties we started with our free pie 'n' peas suppers for older residents in Gateshead. Today we're just as keen for Greggs to have a positive impact on people's lives. With ownership of our supply chain and ambitions to grow to over 2,500 shops nationwide, we are in a unique position to make good, freshly prepared food accessible to everyone.

Our target market

Greggs is a brand for everyone. We work hard to evolve our offer and keep pace with changing customer demands and behaviour, using insight from our award-winning loyalty app, Greggs Rewards, and our dedicated customer insight team.

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.

Our market locations

The world has changed in a short space of time; the way we shop and our food-on-the go eating habits have too. We've been quick to react, by building on our existing estate of shops to take Greggs where our customers want us to be and can now be found in retail parks, shopping centres, industrial estates, office parks, roadside locations and key transport hubs, including motorway service stations, petrol forecourts, train stations, tube stations and airports. Our home delivery trial means that we may soon be able to bring Greggs to your door too.

BUSINESS MODEL

What we do

Manufacturing

Delivery

Shops

Support

Where we operate

Shopping

Travel

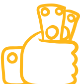
Work

Leisure

What we offer

Quality

Convenience

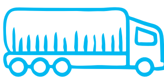

Value

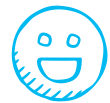
Service

STRATEGY

Great tasting, freshly prepared food

Best customer experience


Competitive supply chain


First class support teams

Read more on **page 10.** →

RISKS AND UNCERTAINTIES

Organisational capacity

Brand reputation

Technology

Regulatory compliance

Read more on **page 36.** →

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

Read more on **pages 18 to 25.** →

Greggs carries out its business in a responsible manner, delivering sustainable long-term growth

In 2018 Greggs once again demonstrated its resilience and capacity for growth, delivering record profits in a challenging retail environment, heavily impacted by extreme weather conditions. Alongside the robust trading performance, we continued to invest in our internal supply chain and systems, laying a strong foundation for further growth and efficiency.

I am proud that Greggs carries out its business in a responsible manner, aiming to deliver sustainable long-term growth for the benefit of all stakeholders.

Overview

Over the year as a whole Greggs performed robustly in 2018. Sales were well ahead of last year, profit was above our expectations and the Company ended the year with a healthy cash balance. This was achieved in a very uncertain economic environment with significant cost pressures and challenging trading conditions, whilst managing a major reorganisation and change programme in the internal supply chain. Trading conditions in the first half of the year were negatively affected by extremes of weather. In the second half, our performance picked up and we ended the year very strongly.

Our people and values

The Board recognises that 2018 was a year of significant change for many of Greggs employees. We oversaw and engaged regularly with the exhaustive planning that went into the reorganisation of our manufacturing operations, designed to improve competitiveness and support further growth in the number of shops. We tested the approach taken by management against our values and were pleased that the changes are being made without a need for compulsory redundancies. Significant progress was also made on the multi-year project to enhance the systems that support our growing business. I would like to record my personal admiration and the thanks of the Board to our 23,000 colleagues who have coped with the many changes over the course of the year and delivered another great outcome for the Company and its shareholders.

Greggs prides itself on conducting its business in a responsible manner and the Board supports and challenges its agenda in this respect. We continued to support the work of the Greggs Foundation, which celebrated the opening of its 500th primary school Breakfast Club in 2018, and we are building on our environmental management programme with a target to reduce the use of single-use plastic across our operations in the year ahead.

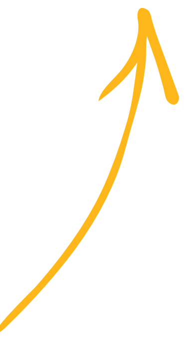
Favourite Greggs snack:
"It has to be the Vegan Sausage Roll."

"Take a look at our strategy to see how it is making an impact."

Read **Our strategy** on **page 10**.

35.7p
10.5% dividend increase

23,000
colleagues



Greggs success depends on its ability to attract and engage a talented and diverse workforce that understands the needs of its customers. The Board sets a strong example on gender balance and has encouraged the business in its journey to create a more inclusive workplace. Our Chief Executive, Roger Whiteside, has shown great personal leadership in this regard and I was delighted that this was recognised in the New Year Honours list, with Roger being awarded the Order of the British Empire for services to Women and Equality.

The Board

Greggs has enjoyed a period of stability on the Board and this has been helpful in ensuring continuity and consistency. We are, nevertheless, planning succession for Board Directors and have embarked on the recruitment of an Audit Committee Chair to succeed Allison Kirkby who will not be offering herself for re-election at the Annual General Meeting ('AGM'), following her appointment to the Board of BT Group. Allison has proved to be a warm and enthusiastic colleague over her six years on the Board, and has displayed passion and professionalism in equal measure. We thank Allison for her contribution and wish her well in her future career.

In 2018 we continued to spend a significant amount of time overseeing the major investments being made in our internal supply chain and the associated change management programme. It was appropriate therefore that the Board held one of its meetings at our Leeds bakery, affording an opportunity for us to see for ourselves the investments being made to create a Centre of Excellence for small cakes, and also to review our retail operations in the Leeds area. Both visits allowed the Directors to hear directly from staff involved in the programme of organisational change that supports our growth plans.

Outside of such formal arrangements, Directors continue to visit different areas of the business and experience it through the eyes of our colleagues, customers and other stakeholders. This helps to ensure that Non-Executive Directors' contributions to Board discussions are well informed, supporting open and constructive dialogue with the management team and helping them to meet the s172 obligations to take into account the broader stakeholder population.

Risk management continues to be an important area of focus for the Board, particularly in light of heightened awareness of the risks around allergens, the Company's ongoing change programme and the uncertainties surrounding the UK's exit from the European Union.

We also spent time during the year understanding management's approach to ensuring that the culture within Greggs remains one that manages risks well as the business grows further.

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 further surplus cash being returned to shareholders as appropriate. Our Finance Director, Richard Hutton, outlines the expected application of the distribution policy in more detail in the financial review. We currently expect to be in a position to declare a special dividend at the time of our interim results in July.

In line with its progressive ordinary dividend policy, the Board intends to recommend at the AGM a final dividend of 25.0 pence per share (2017: 22.0 pence), giving a total ordinary dividend for the year of 35.7 pence (2017: 32.3 pence), an increase of 10.5 per cent.

Looking ahead

It is hard to report on the performance of Greggs without reference to the vegan-friendly sausage roll, launched in early 2019 to an enthusiastic reception from our customers. The extraordinary level of social and general media coverage that followed has attracted additional visits to our shops, offering a great opportunity to showcase the many improvements that have been made to our shops and product offering in recent years.

At a time of unprecedented political and economic uncertainty for the food industry and for the UK, Greggs continues to demonstrate its resilience. Whilst we cannot be immune to the impact that this uncertainty may have on the economy as a whole, we are in a strong financial position and are investing for further growth and increased competitiveness in the years ahead.

Ian Durant
Chairman
7 March 2019

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 built into them all.

Strategic pillar

Great tasting, freshly prepared food

We work hard to make sure our range meets our customers' needs and that, 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.

Best customer experience

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, and sharing our success with the communities that we serve. We are taking our modern shops to where our customers want them to be, extending trading hours and ultimately becoming more and more convenient alongside their busy lives.

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 minimise our impact on the environment, while supporting shop growth.

First class support teams

We have well-trained people providing great service to their colleagues and ultimately our customers, and are committed to providing our teams with a great place to work by investing in first class systems and living up to Greggs values.

"We're always striving to have a positive impact on peoples lives."

Read more on our **Principal risks and uncertainties** on **pages 38 and 39**.

Read more on our **Key performance indicators** on **pages 30 to 34**.

Progress made in 2018	Plans for 2019
We continued to grow our strategic categories, which now account for 36 per cent of sales and reinforced our reputation for great value, by expanding our breakfast deal and introducing a new £2 'pizza slice + drink' offer after 4pm. Our first vegan-friendly product, the Mexican Bean Wrap, was well received alongside our expanding vegetarian range, encouraging more customers to give us a try.	We have another strong pipeline of new product developments and upgrades, with many opportunities to improve our product offer and further develop our position in the food-on-the-go market.
As our food-on-the-go refit programme neared completion, we continued to open new shops in exciting high-profile transport locations. We built on the success of Greggs Rewards to understand how we can serve our customers better through the use of digital technology, by trialling `Click and Collect' in Manchester and working with Deliveroo to test home delivery in Birmingham, Newcastle, Bristol and London. The development of our B2C and B2B gifting channels are creating new ways for customers to shop with us.	We will increase shop numbers and expect to open 100 new shops, including 50 with franchise partners. We will continue to develop our digital vision for Greggs, taking our shopping environments and customer experiences to the next level.
We invested record amounts in our supply chain during a peak year of activity, which has focused on the creation of Centres of Excellence in Newcastle, Manchester and Leeds. The quality of production and service from our new manufacturing lines has been excellent, despite unprecedented levels of upheaval as we implemented the changes.	We will complete the manufacturing programme of activity, creating Centres of Excellence in Enfield, Glasgow and Treforest and build our second dedicated Distribution Centre in Amesbury, to support shop growth in the south of England.
During a peak year of investment, the human resource and estate management modules of our integrated SAP solution were implemented, together with enhanced processes to manage our product ranging and availability.	It's another big year in our major process and systems investment programme, with the replacement of our payroll system taking priority in the first half, alongside which we will be rolling out the SAP solution for our supply chain.

2018 tested Greggs business model and demonstrated the benefits of our strategic investment programme

2018 was a year that tested the resilience of Greggs business model and demonstrated the benefits of our strategic investment programme.

The first half was significantly impacted by extreme weather but our multi-year investment in food-on-the-go products, customer experience and new shop locations allowed us to maintain positive sales growth in relatively difficult market conditions.

Favourite Greggs snack:
"Our iconic sausage roll, of course!"

Once weather conditions returned to normal these underlying strengths were revealed in a strong second-half performance that saw us recover all of the lost ground and deliver results for the year that exceeded our expectations. At the same time, we continued to make good progress with the remaining elements of our business transformation programme, including the significant supply chain investment that will deliver increased efficiency and capacity for further growth in shop numbers.

Financial performance

Total sales grew 7.2 per cent to £1,029.3 million in 2018, the first time in its history that the business has generated turnover of more than a billion pounds in a year. Within this, company-managed shop like-for-like sales (defined on page 110) grew by 2.9 per cent.

Underlying operating profit, excluding property profits and exceptional items, grew by 9.1 per cent to £89.1 million (2017: £81.7 million). Pre-tax profit (including exceptional items) grew by 14.8 per cent to £82.6 million.

Market background

Economic conditions remained challenging in 2018. Although inflationary pressures on consumers eased and they saw a return to growth in disposable incomes, confidence levels were low due to continued uncertainty regarding the economic outlook. The general retail sector saw continued declines in high street footfall as traditional business models struggled to adapt to the new dynamics in customer behaviour, whilst dealing with continued rising costs, particularly relating to labour.

The weather had a significant impact on trading in 2018. After a good start to the year the severe wintry conditions in early March hit sales badly and a more subdued trading period followed. In June and July the prolonged heatwave also affected sales, with strong demand for cold drinks, but less for bakery items. As soon as temperatures reverted to the seasonal norm, we saw a pick-up in sales growth, and this strengthened further through the fourth quarter.

2.9%
Company-managed shop like-for-like sales grew by 2.9 per cent

In contrast to the general retail environment, the food-on-the-go sector overall continues to grow, though it remains highly competitive. We have worked hard over the last five years to redevelop our shop estate in order to be less dependent on shopping locations, and to refocus our product range on growth categories and extended day-parts which have been key to our success. These strategic initiatives have been underpinned by fast and friendly service, further driving genuine consumer affection for the Greggs brand.

Delivering our strategy

Greggs draws on its 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 also committed to conducting our business in a responsible manner and, in doing so, **having a positive impact on people's lives.**

In the five years since we launched our strategic plan to focus on the growing food-on-the-go market we have radically reshaped the business, making it better balanced and more efficient whilst focusing it on those areas that will provide a platform for continued long-term growth in a rapidly changing retail environment.

We are now a significant way through our transformation programme, which is on plan and scheduled to complete in 2021. This has required a significant level of capital investment and business change, but we have already seen resulting benefits and these investments are positioning the business to succeed over the long term. When the programme has completed, we will have the capacity to grow the estate to around 2,500 shops, as well as having a materially more efficient and flexible platform and infrastructure.

Our strategy has four pillars:

1. Great tasting, freshly prepared food

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

Making good, freshly prepared food accessible to everyone is embedded in our core purpose as a brand. Our outstanding value meal deals set us apart from the competition and have increased in popularity as awareness of them grows. Over the years we have developed a market-leading reputation in long-established traditional bakery categories adapted to food-on-the-go. Whilst these products remain best sellers, we continue to build a reputation in new areas that create more reasons to visit Greggs, meeting food-on-the-go needs at all times of the day.

Breakfast

Breakfast-on-the-go continues to grow strongly and remains the fastest-growing part of our trading day. We now offer a wide range of breakfast menu options to cater for regular customers seeking variety each day, and awareness is growing as we add lines such as fruit and yoghurt to our breakfast meal deal. New products such as fresh porridge and breakfast boxes are also showing good potential as they become available in more shops.

Hot drinks

Led by coffee at breakfast, our reputation for quality, value and service in this growth category continues to build. We are focused on offering the best-selling coffee choices in the market at outstanding value, often combined with food purchases. We have been successful in adding new flavours to coffee and in offering a reusable cup to help reduce levels of packaging waste.

Dietary choices

Growing consumer interest in food choices and its impact on health and the environment is driving increased demand for dietary options in food-on-the-go. Greggs has a key role to play in encouraging healthier food choices. Our range of options for customers is widening – adding gluten-free and vegan-friendly products alongside those in our Balanced Choice range that offers fewer than 400 calories and good nutritionals. Notable successes include our range of gluten-free soups, award-winning vegan-friendly Mexican bean wrap and, in early 2019, the launch of our vegan-friendly sausage roll.

We have adopted a proactive approach, working closely with Public Health England, to reduce salt, fat and sugar in our products and to encourage greater consumption of vegetables as part of a balanced diet. We remain one of the few food-on-the-go retailers to publish full calorie and nutritional information on all of the products we sell to help customers make informed choices.

Hot food

Hot food is also a key area of development for us, with increasing demand for quick meal solutions later in the day when demand for sweet bakery items and cold sandwiches has passed its peak. Hot sandwiches are available in all shops and we are now beginning the roll-out of hot self-serve cabinets, making successful new product ranges available across the country. These include fresh porridge, soups, potato wedges and chicken goujons.

2. Best customer experience

Fast and friendly service is a key reason why customers choose Greggs. Great service is not an easy thing to deliver under pressure and our shop teams do an amazing job. This year we have supported them with training to deliver 'The Greggs Way', our best-practice programme that aims to release more time to serve customers by simplifying processes and increasing productivity. Our investment in systems capability has also improved product availability through better ordering and ranging.

The use of technology to improve the customer experience is developing rapidly and we have begun trials to determine the best way forward for Greggs in new areas including 'click and collect' and home delivery. Early results have been promising and we intend further development and roll-out in the year ahead.

Our marketing is beginning to play a more significant role as we target infrequent and non-users who have yet to recognise how much Greggs has changed in recent years. We have invested to strengthen our marketing capability, which has seen an improvement in all areas, beginning with customer insight and through to product packaging, shop point of sale and brand communication.

Social media channels are playing a key role in our strategy to drive brand awareness, with the recent campaign launching our vegan-friendly sausage roll showing the scale of impact that can be achieved. This launch built on a series of campaigns, building advertising awareness through 2018 and prompting reappraisal of the brand and increased frequency of visits. Combined with insight from our Greggs Rewards scheme, we have been able to assess the extent of new customer acquisition and repeat purchase patterns, informing our future plans for ranging and fulfilment. In the year ahead we plan to invest further in Greggs Rewards to broaden its user base, measure customer satisfaction and help us better understand and meet customer needs.

Our shops

Our shop estate has been transformed in recent years to create an attractive food-on-the-go experience with relevant products, extended trading hours and seating, and a wide variety of location types offering convenient access wherever our customers are. Convenience is the key consideration when customers choose where to shop for food-on-the-go. 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 good access. In 2018 we opened 149 new shops (including 62 franchise units) and closed 50, growing the estate to 1,953 shops trading as at 29 December 2018.

We now have 262 franchised shops, predominantly in travel locations, and we extended our company-managed estate into a number of high-profile transport hubs in the year. These included Birmingham New Street Station, Glasgow Buchanan Bus Station and East Midlands Airport. In London we opened in Westminster Underground, Cannon Street and London Bridge Stations, the latter of which has quickly become one of our busiest shops.

Refurbishment of our shops continued at a relatively modest level in 2018 thanks to the substantial investments made over the last five years to transform legacy bakery shops to our food-on-the-go format. We completed 89 refurbishments and franchise partners refurbished a further 11 units. In the year ahead we expect to refurbish around 60 shops, and this will then step back up to a level of around 200 per year three years from now.

We have a strong pipeline of new shop openings for 2019 and expect to add at least 100 net new shops in the year, including around 50 with franchise partners. We will continue to focus on increasing our presence in travel, leisure and work-centred catchments. At the end of 2018, 37 per cent of our shop estate was located in these catchment types and we expect this proportion will continue to rise as we work towards our target of at least 2,500 shops.

1,953
Total number of shops trading at the end of the year

> "Greggs is a national brand with a local culture. Our teams take enormous pride in their connection with, and support for, the local communities in which we operate."

3. Competitive supply chain
2018 was a year of significant progress in our major investment programme to support shop growth by increasing logistics capacity and consolidating our manufacturing operations. Once complete, in 2021, this new supply chain platform will provide capacity for around 2,500 shops and deliver improvements to product quality and competitiveness.

The significant elements of this programme delivered in 2018 were:

- Consolidation of doughnut base manufacturing at our Gosforth Park bakery in Newcastle upon Tyne.
- Transfer of pizza production to our Manchester site, and successful commissioning of a new roll plant there.
- Closure of our bakery and distribution operations in Norwich.
- Creation of a national facility for the production of fresh cream products at our Leeds bakery.

In the year ahead we aim to complete the programme to consolidate manufacturing into our Centres of Excellence and have also commenced work to build our new southern distribution centre at Amesbury in Wiltshire. This is expected to complete at the end of 2019 and will provide additional support for our growth plans from 2020 onwards. The final stage of the investment plan, expected to commence in 2020, will be the conversion of our Birmingham site to become a dedicated distribution centre. A further opportunity to increase efficiency in our logistics network has also been identified. This two-year project will result in us building an automated frozen distribution facility at our Balliol distribution centre in order to reduce our reliance on third-party providers.

Once again, I must pay tribute to the commitment of our supply chain team who have managed such significant change whilst maintaining a high standard of service as we continue to grow shop numbers. It has not been easy but we are building a supply network that we can be proud of, and which will enable the Greggs business to improve product quality and increase capacity to reach customers in more parts of the UK.

4. First class support teams
Our investment programme to modernise our processes and IT systems is now well advanced. In 2018 we enhanced processes for managing product ranging and pricing as well as implementing the human resource and estate management modules of our integrated SAP solution.

Preparations are now well advanced for the replacement of our payroll system in the first half of 2019; this will leave the integration of our logistics and manufacturing sites as the final element of the programme, which should complete in 2021.

With the end of our multi-year SAP deployment programme in sight, our IT team is now turning its attention to the exciting opportunities that lie ahead as we develop our digital capabilities to build new services and a seamless customer experience across all channels.

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. Customers are increasingly aware of the impact of economic activity on society and the environment and are becoming more demanding when making consumption choices. We at Greggs recognise that we must play our part and show leadership in areas that really matter to our customers.

We encourage healthier food-on-the-go choices
Customers are becoming increasingly aware of the impact of diet on their health and wellbeing and we aim to help customers make good, well-informed choices when consuming food-on-the-go. We provide calorie and nutritional information for all of our products either on the shelf or through our website and mobile application, and are proud supporters of Public Health England's 'One You' campaign.

We aim to provide our customers with convenient access to healthier choices in food, with ranges such as our Balanced Choice products offering options with fewer than 400 calories. We also offer a number of gluten-free products and, more recently, vegan-friendly options. Our Mexican bean wrap was named 'Best Vegan Sandwich' at the PETA Vegan Food Awards 2018.

"We also fundraise for a number of other charities which our people and customers feel passionate about."

Reducing sugar is also a key objective – we are fully engaged with Public Health England and are on track to achieve a 20 per cent reduction across all our products by 2020. Our carbonated drinks have almost all been reformulated to reduce sugar and we are making good progress in sweet bakery, which is the next largest category to be targeted. Whilst traditional bakery products remain popular, we are seeing good growth in a wide range of products offering healthier choices as customers seek out fewer calories, less sugar and vegetable fillings. As a result of our 'Pledge for Veg', made in partnership with the Food Foundation, we helped our customers to consume over one million extra portions of veg in 2018.

The Greggs Foundation is proud to be 'Tackling Health' through the implementation of a national programme in primary schools. The initiative, in partnership with Premiership Rugby, will encourage 30,000 children from across the country (many of whom attend one of the Greggs Foundation's Breakfast Clubs) to make healthier food choices and to get active through playing tag rugby by the end of 2020.

We care where our products come from

Customers are showing growing interest in the supply chain impact of their buying choices. All the tea, coffee, hot chocolate, orange juice, apple juice and bananas we sell are certified Fairtrade – the premium paid for our coffee over the last 13 years has enabled farmers to invest over £2.5 million into their farms and communities. We source our ingredients from sustainable sources and maintained a 'Tier Two' standing in the Business Benchmark on Farm Animal Welfare for the third year running. 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.

In 2018 Greggs became the first high-street company to invest in Shared Interest – a social lender that has over 11,500 UK members with a collective investment of £40 million in share capital. This money is pooled in order to offer loans and credit facilities to Fairtrade producers who struggle to find finance elsewhere.

We share our success with the community around us

Every day we distribute unsold fresh food to local charities and collect change in our shops for the Greggs Foundation, which has been established for over 30 years. Each year we donate at least one per cent of profits to the Greggs Foundation and this, along with support from our staff and partners, has enabled the charity to invest £2.8 million in 2018 in 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 88 partners, now provides over six million free wholesome breakfasts each year to children in over 500 primary schools.

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.

We aim to use energy efficiently and minimise waste

The 'Blue Planet effect' has driven customer awareness of the environmental impact of their consumption choices to a whole new level. We are proud to support national environmental initiatives including Surfers Against Sewage's Autumn Beach and River Clean Series (for the third year running) and are committed to doing our bit to protect the health of the planet. Plastic has become a key focus and we have responded by testing replacements for single-use plastics in our shops. Following successful trials these will be rolled out across our entire estate during 2019. Once complete this will remove over 300 tonnes of plastic from our supply chain each year.

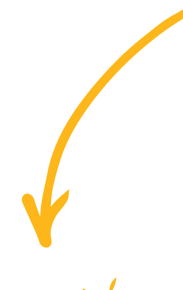
Coffee cups remain a target for further reduction and improved recycling. Our reusable cup, which offers customers a 20 pence discount on any hot drink, is increasingly popular and we are working with industry peers to develop sector-wide improvements in the way we manage coffee cup usage and disposal.

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 are committed to creating a great place to work
Deeply embedded in the Greggs culture, and a fundamental source of our enduring success as a brand, is the way our colleagues feel about working for Greggs. We have worked hard to preserve their loyalty and affection whilst making transformational changes to our business model in recent years. Our Employee Opinion Survey provides us with the best insight to understand employee sentiment and remains at sector-leading levels. Our engagement score for 2018 increased once more to 82 per cent. We aim to make Greggs an even better place to work and are challenging ourselves against the criteria of the National Equality Standard. We are committed to supporting the development of all our colleagues, notably our talented female colleagues, and in 2018 reported a gender pay gap of 18 per cent (2017: 22 per cent). We have made good progress with this in recent years and are currently ranked tenth in the FTSE 250 ranking for women on boards and in leadership.

We share ten per cent of our profits with employees and will be sharing a record £10.0 million with our people as a result of our performance in 2018.

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



We will be sharing a record £10 million with our people due to our strong performance in 2018

Outlook for 2019

There are significant uncertainties in the months ahead, not least as the UK negotiates its exit terms from the European Union and the potential impact that a disorderly exit might have on supply chains, tariffs, exchange rates and consumer demand. However, Greggs has started 2019 in great form, with company-managed shop like-for-like sales in the seven weeks to 16 February 2019 up 9.6 per cent, and total sales up 14.1 per cent. We have enjoyed strong sales growth, particularly in January, helped in part by the publicity surrounding the launch of our vegan-friendly sausage roll. We hope to continue benefiting from this strong momentum during the first half of 2019 before facing stronger comparatives later in the year.

2019 will be another significant year for investment in our supply chain as we create the capacity and platforms for further growth. We have a strong financial position which we plan to use to invest in Greggs potential for further growth, whilst also delivering good returns for shareholders.

Roger Whiteside OBE
Chief Executive
7 March 2019

OUR PROGRESS IN 2018

Great tasting, freshly prepared food

In a nutshell we offer great tasting, freshly prepared food that our customers can trust, at affordable prices and while our classic favourites can't be beaten, we work hard to ensure there is always something new to excite them. We will continue to develop products in line with changing food trends, making sure we strike the right balance between innovation and tradition, nutrition and indulgence, value and values.

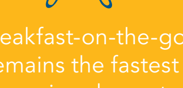
SUGAR REDUCTION

We reformulated our range of sweet products in line with Public Health England's year two sugar reduction target of 10%. We actually achieved 17.4% and are on track to achieve an overall reduction of 20% by 2020

BEST VEGAN SANDWICH

Our first vegan-friendly product, the Mexican bean wrap, was named `Best Vegan Sandwich' at PETA's 2018 Vegan Food Awards

Greggs is recognised as Britain's favourite for bacon rolls



Breakfast-on-the-go remains the fastest growing daypart

£3M

Greggs partnership with Fairtrade, which is now in its 13th year, has enabled farmers to invest over £3 million into their farms and communities. In 2018 we became the first high-street company to invest in Shared Interest – a social lender that offers loans and credit facilities to Fairtrade producers who struggle to find finance elsewhere

36%

New strategic categories now account for 36% of sales (2013: 15%)

1M+

We helped our customers to consume over one million extra portions of veg, as a result of our 'Pledge for Veg', made in partnership with the Food Foundation

TACKLING HEALTH

The Greggs Foundation is proud to be 'Tackling Health' in primary schools with Premiership Rugby, through the implementation of a national programme which will encourage 30,000 children from across the country (many of whom attend one of the Greggs Foundation's Breakfast Clubs), to make healthier food choices and to get active through playing tag rugby by the end of 2020

Sustainability links

Customer health

Responsible sourcing

Community

Environment

People

Read more on **Non-financial key performance indicators** on **pages 32-34.** →

ONE YOU

We are proud supporters of Public Health England's 'One You' campaign, during which we highlight our breakfast and lunch combinations which meet the 400-600-600 recommended daily calorie consumption

TIER TWO

We maintained Tier Two in the Business Benchmark on Farm Animal Welfare for the third year running

OUR PROGRESS IN 2018

Best customer experience

We've been working hard to take Greggs to where our customers are, making sure our shops are open when they need them and that we offer modern, attractive shopping environments. We deliver fast and friendly service and enjoy making every day a great day for our customers by rewarding them for their loyalty, and for the communities that we serve by sharing our success. We will soon break through the 2000th shop mark and are excited about our future growth potential, as we extend our offer into the evening and invest in digital technology, which promises to take our customer experience to a new level.

£30M

We donate at least 1% of our pre-tax profits to the Greggs Foundation and fundraise all year round for this fantastic charity. Since the charity was founded, over 30 years ago, it has given in excess of £30 million to help improve the quality of life of people in the local communities that we serve

We are proud to support national environmental initiatives including Surfers Against Sewage's Autumn Beach and River Clean Series (for the third year running), and committed to doing our bit to improve the health of the planet in our Plastic Reduction Policy

This year we introduced a number of initiatives to reduce the use of single-use plastic across 30 of our Newcastle and Glasgow shops, and will be rolling them out in 2019

New Bridges shop in Sunderland crowned `Shop of the Year' 2018

Exciting new shop locations included Westminster Tube Station, London Bridge Station, Birmingham New Street Station, Glasgow Buchanan Bus Station and East Midlands Airport, (not forgetting our third Drive-Thru in Blackburn)

10x

We have increased the amount of unsold food that we donate to good causes tenfold over the last five years

Sustainability links

Customer health

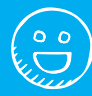
Responsible sourcing

Community

Environment

People

Read more on **Non-financial key performance indicators** on **pages 32-34.**



1,953

We now have 1,953 shops, with 37% located outside traditional shopping locations and believe that proportion will grow to over 50% in the longer term (2013:20%)

LET'S GET DIGITAL

We have been building on our digital vision for Greggs by trialling home delivery in Birmingham, London, Bristol and Newcastle and 'Click and Collect' in Manchester. Feedback received to date has been extremely positive

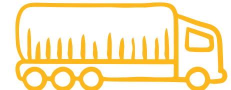
500TH

Greggs Foundation celebrated the launch of its 500th Breakfast Club. Set up in 1999, the Greggs Breakfast Club Programme has since provided over 50 million nutritious breakfasts to schoolchildren in disadvantaged areas

90%

of our shops are now open by 7am or earlier, Monday to Friday

OUR PROGRESS IN 2018



Competitive supply chain

Because we own our supply chain and make our own bakery products, we can provide the best value to our customers and deliver unique product innovations and environmentally-friendly packaging solutions, meaning everyday tastes good at Greggs. Ownership of our distribution centres and delivery fleet makes us even more competitive – capable of supporting shop growth and minimising the impact that our operations have on the environment. The completion of our centralisation journey in two years' time will give us the platform we need to improve the quality of our existing range and create new products, while continuing to offer fantastic value.

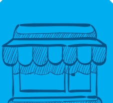
Our Newcastle doughnut line is home to one of Kemper's biggest fryers, of which there are only four in the world

Centres of Excellence for creams, doughnuts, pizzas and bread rolls created in Leeds, Newcastle and Manchester

ISO 14001

Environmental Management System is certified to ISO 14001 standards

Selling daily fresh products means we require less packaging than our factory food competitors. We are, however, committed to reducing the use of single-use plastic in our processes and have recently switched from acetate to cardboard packaging for our twin pack Yum Yums and Belgian Buns in Newcastle and Glasgow. In 2019 we will roll out these environmentally packaging solutions



We said a fond farewell to our Norwich Bakery

Our Manchester Centre of Excellence has the capacity to produce over 3 million bread rolls per week

Peak year of activity which has required a once-in-a-generation level of capital investment and business change

Sustainability links

Customer health

Responsible sourcing

Community

Environment

People

Read more on **Non-financial key performance indicators** on **pages 32-34.** →

7,000

Nearly 7,000 Yum Yums are made every hour in Glasgow

Our Manchester pizza line can make 10,000 pizzas per hour

14%

We're proud holders of the Carbon Trust Standard in recognition of our work on carbon efficiencies, and achieved a 14% reduction in intensity in 2018

OUR PROGRESS IN 2018

First class support teams

As we continue to make significant progress in centralising our back office systems, introducing the new ways of working needed to compete more effectively as a centralised brand, we have well-trained and engaged colleagues providing great service to their team members, to ensure we provide the best customer experience possible. As this transformation programme completes, we can look forward to reaping the benefits of being fully connected, as a modern, centralised food-on-the-go operator.

18%

In 2018 we reported a gender pay gap* of 18%, compared to 22% in 2017

We are signatories to the National Equality Standard and are committed to supporting the development of all our colleagues

#10

Greggs is ranked number ten in the FTSE 250 rankings for women on boards and in leadership. We are making sure our female executive talent receive all the encouragement they need to pursue a progressive career through our `Female Career Development Programme'

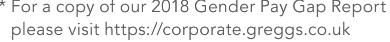
During a peak year of investment, the human resource and estate management modules of our integrated SAP solution were implemented

Our programme of investment in centralised systems is well-advanced and nearing completion, delivering benefits ahead of schedule

Enhanced processes to manage product ranging and price promotion introduced

Chief Executive, Roger Whiteside awarded an OBE for his services to women and equality in the 2019 New Year's Honours List

* For a copy of our 2018 Gender Pay Gap Report please visit https://corporate.greggs.co.uk



Sustainability links

- Customer health
- Responsible sourcing
- Community
- Environment
- People

Read more on **Non-financial key performance indicators** on **pages 32-34.** →

Forecast and replenishment systems delivering good availability and lower stales

82%

of our people say they feel committed to Greggs and to helping us achieve our goals

£10M

We share 10% of our profits with employees and will be sharing a record £10 million with our people in 2019

In 2018 we delivered a record financial performance

In 2018 we delivered a record financial performance, taking more than one billion pounds in sales for the first time in the Company's history, we recovered from a very challenging first half to deliver an increase in profit and margin for the year as a whole. Cash generation was strong, setting us up well to finance our growth-oriented investment programme, while at the same time improving shareholder returns.

Favourite Greggs snack:
"Jammie Heart Biscuit – 5 pence from the sale of each one goes to the Greggs Foundation!"

	2018 £m	2017 £m
Revenue	**1,029.3**	960.0
Operating profit (excluding exceptional items and property profits)	**89.1**	81.7
Property profits	**0.7**	0.5
Operating profit (excluding exceptional items)	**89.8**	82.2
Operating margin (excluding exceptional items)	**8.7%**	8.6%
Finance expense	**(0.0)**	(0.4)
Profit before taxation (excluding exceptional items)	**89.8**	81.8
Exceptional items	**(7.2)**	(9.9)
Profit before taxation	**82.6**	71.9

Sales

Total Group sales for the 52 weeks ended 29 December 2018 were £1,029.3 million (2017: £960.0 million), an increase of 7.2 per cent. Sales in company-managed shops with more than one calendar year's trading history ('like-for-like') grew by 2.9 per cent to £876.3 million (2017: £851.7 million).

Profit

Operating profit before exceptional items was £89.8 million (2017: £82.2 million). This included a £0.7 million contribution from property disposals (2017: £0.5 million). Excluding the impact of property profits from both years, the underlying growth in operating profit was 9.1 per cent.

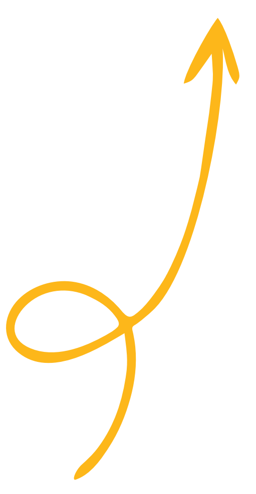
Pre-tax profit before exceptional items was £89.8 million (2017: £81.8 million). Including exceptional items, pre-tax profit was £82.6 million (2017: £71.9 million).

Exceptional items

Our major investment programme, designed to reshape our internal supply chain for future growth, commenced in 2016. We continue to expect the total exceptional cash costs of this change programme, excluding any associated property disposal gains, to be in the region of £25.0 million, with a further £5.0 million charge in respect of non-cash costs (accelerated depreciation and asset write-offs). Total charges so far amount to £22.8 million and we expect a further £4.3 million in 2019.

£1,029M
Total sales up 7.2%

£89.1M
Underlying operating profit, excluding property profits, up 9.1%



Activity in 2018 included the consolidation of doughnut base manufacturing at our Gosforth Park bakery in Newcastle upon Tyne, the transfer of pizza and roll production to our Manchester site and the creation of a national facility for the production of fresh cream products at our Leeds bakery. At the end of 2018 we also closed our bakery and distribution operations in Norwich. The total exceptional charge in relation to this programme was £5.9 million in 2018 (2017: £10.1 million).

An exceptional pension cost arose in the year as a result of the High Court ruling in the case of Lloyds Bank in relation to Guaranteed Minimum Pension ('GMP') equalisation. Whilst this may still be subject to appeal, we have made a provision of £1.7 million for the expected one-off impact of GMP equalisation on the reported liabilities of the Company's defined benefit pension scheme.

After adjustments made for the reversal of prior year exceptional costs the total exceptional charge for the year was £7.2 million (2017: £9.9 million), comprised as follows:

	2018 £m	2017 £m
Supply chain restructuring:		
– (release)/provision of redundancy costs	**(0.2)**	7.4
– transfer of operations	**4.9**	1.3
– property-related	**0.5**	0.5
Cash costs of supply chain restructuring	**5.2**	9.2
– depreciation and asset write-offs	**0.7**	1.3
– property disposal gains	**–**	(0.4)
Net supply chain restructuring charge	**5.9**	10.1
GMP equalisation past service costs	**1.7**	–
Release of prior years' exceptional items:		
– property-related	**(0.4)**	(0.2)
Total exceptional items	**7.2**	9.9

There were no exceptional property gains in the year in respect of the supply chain restructuring programme. Our vacant Twickenham site is under contract for sale subject to certain conditions. Should this progress to completion then any resultant profit will 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 2018 the total cash impact of exceptional items was a net outflow of £9.0 million (2017: £1.9 million cash outflow). We expect the 2019 cash outflow in respect of exceptional items to be c.£7.0 million.

Operating margin

Operating margin before finance expenses and exceptional items was 8.7 per cent (2017: 8.6 per cent). Including exceptional items, the operating margin was 8.0 per cent (2017: 7.5 per cent).

Gross margin before exceptional items was stable year-on-year at 63.7 per cent (2017: 63.7 per cent). Food input costs proved less inflationary than was the case in 2017, and the rate of inflation reduced as the year went on. Including exceptional items, gross margin was 63.1 per cent (2017: 62.7 per cent).

In 2018 we continued to drive actions to make the business simpler and more efficient, and in doing so partially mitigated the impact of cost inflation on the business. In 2018 we delivered savings of £7.4 million (2017: £9.7 million) through procurement initiatives, benefits from our investment in modernised IT systems and as a result of improvements across our retail and supply chain operations. Employment cost inflation continued to be a headwind and this will be the case again in 2019, with increases to the National Living Wage as well as higher pension contributions.

Financing charges

There was a net finance expense of £0.0 million in the year (2017: £0.4 million) reflecting the funding position of the defined benefit pension scheme, offset by interest received and exchange gains. In the year ahead we expect to incur a finance expense of around £0.2 million relating to the net liability of the pension scheme at the start of the year. Financing charges will also be affected by the adoption of IFRS 16 (see below).

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 20.2 per cent (2017: 20.7 per cent). The overall tax rate for the year including exceptional items was 20.4 per cent (2017: 20.9 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 2019 to be around 20.75 per cent and that the effective rate going forward will be almost two per cent above the headline corporation tax rate. This is principally because of 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 70.3 pence (2017: 63.5 pence), an increase of 10.7 per cent. Basic earnings per share before exceptional items were 71.1 pence (2017: 64.5 pence). Including exceptional items diluted earnings per share were 64.5 pence (2017: 55.7 pence) and basic earnings per share were 65.2 pence (2017: 56.6 pence).

Dividend

The Board recommends a final ordinary dividend of 25.0 pence per share (2017: 22.0 pence). Together with the interim dividend of 10.7 pence (2017: 10.3 pence) paid in October 2018, this makes a total ordinary dividend for the year of 35.7 pence (2017: 32.3 pence), an increase of 10.5 per cent. 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 AGM, the final dividend will be paid on 30 May 2019 to shareholders on the register on 26 April 2019.

Balance sheet

Capital expenditure

We invested a total of £73.0 million (2017: £70.4 million) in capital expenditure during 2018. The total included £33.1 million for development and maintenance of our retail estate and £7.0 million in respect of development and maintenance of our IT infrastructure. Investment in our supply chain totalled £32.9 million as we commissioned new production lines to consolidate our previously decentralised regional bakery operations, and expanded our distribution capability to facilitate further growth in shop numbers. Depreciation and amortisation in the year was £55.9 million (2017: £53.5 million).

The investment in our supply chain will continue throughout 2019, when we will complete the consolidation of manufacturing whilst building our new distribution facility at Amesbury in Wiltshire. We will also continue to expand our shop estate, investing in between 80 and 90 new company-managed shops alongside further openings with franchise partners. Overall, we plan capital expenditure of around £90 million in 2019.

The investment programme in our supply chain is expected to complete in mid-2021 and we intend to continue to grow shop numbers at a rate of c.100 net shops per year, likely to be evenly split between company-managed and franchised operations. The requirement for capital expenditure to refurbish our shops will increase in the coming years, as we come out of the current lull in the refurbishment cycle; at the same time the expenditure on our supply chain will be reducing. Overall, we expect the medium-term capital expenditure requirement to be in the range £80-90 million per annum.

Working capital

Group net current liabilities decreased to £4.5 million at the end of 2018 (2017: £21.4 million). We held a relatively high cash balance at the end of 2018 as a result of delays in the phasing of capital expenditure, and a higher than normal trade creditor position as we changed energy supplier. Inventory levels rose by £2.1 million and receivables fell by £1.8 million in the year.

With the current uncertainties over the UK's exit from the European Union we have taken the precaution, where possible, of building additional stocks of key ingredients and equipment that could be affected by disruption to the flow of goods into the UK. An additional £2.7 million of working capital has been committed in this way in early 2019 and additional operating expenditure of £0.25 million is expected in 2019 as a result of our actions.

Pension scheme liability

The net liability shown on the balance sheet for the Company's closed defined benefit pension scheme increased to £8.4 million (2017: £7.5 million). As noted above, provision has been made for the expected one-off impact of GMP equalisation on past service costs. In 2018 the assets of the scheme lost value due to market conditions but this fall was broadly offset by actuarial assumptions, particularly a strengthening of the discount rate used to value the scheme's liabilities. The scheme will next undergo a full actuarial revaluation in 2020.

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 eight years. Other investments are appraised using discounted cash flow analysis.

The performance of new shops opened in 2018 was good, with average sales above the level expected at the time of investment. New shops opened in 2017

are maturing well and are, on average, now making returns above our target. Within this we continue to see particularly strong returns on the relocation of shops within their existing catchments.

On average, a company-managed shop generated sales of £568,000 in 2018, and required £226,000 in capital employed, generating a cash return of 37 per cent on this capital (taking into account store-level cash contribution less an allocation of incremental support costs). Annual income from a franchised shop was, on average, £211,000 in the same period, and required £89,000 in capital employed. After allocated support costs franchised shops generated a cash return of 29 per cent on capital.

We delivered an overall return on capital employed (ROCE, defined on page 110) for 2018 of 27.4 per cent excluding exceptional items (2017: 26.9 per cent), reflecting the strength of performance in the year, and lower than expected capital expenditure.

Lease accounting

Greggs will adopt the requirements of IFRS 16 'Leases' for the first time in 2019. As a result, we will recognise a balance sheet asset and corresponding obligation relating to our use of properties and other assets leased under multi-year agreements.

Rental payments made under these leases will be accounted for as repayments of the balance sheet liability, which will include an implied interest element, and the asset recognised will be depreciated over the remaining lease term.

Greggs will adopt the modified approach to transition where the initial asset values will be equal to the present value of the future lease payments as at the date of transition. This will result in all existing leases being capitalised over their remaining lives, as if they had just been entered into, and the Company's accounts will reflect an elevated interest charge following adoption.

On transition our opening balance sheet position for 2019 will be adjusted for right-of-use assets in the order of £270 million, with corresponding lease liabilities in the order of £270 million.

2019 net profit before tax will decrease by an estimated £4.2 million as the pre-IFRS 16 rental charge is replaced by depreciation and interest. The depreciation will be charged on a straight-line basis; however, interest is charged on the outstanding lease liabilities and will therefore be higher in the earlier years and decrease over time. On the basis of the Company's plans for further growth in shop numbers the expected impact on reported profit performance over the next three years is as follows:

	2019 £m	2020 £m	2021 £m
Expected increase in operating profit	2.6	2.8	3.8
Expected increase in finance expense	(6.8)	(7.9)	(8.5)
Expected decrease in net profit before tax	(4.2)	(5.1)	(4.7)

On a cash flow basis, the impact of transition to IFRS 16 will be £nil and adoption of the standard will have no impact on the way that we evaluate shop investment.

The above estimates are sensitive to a number of judgements, including a key one relating to the treatment of properties where the current lease term has expired but we remain in negotiation with the landlord for potential renewal. Our interpretation of IFRS 16 is such that, where we believe renewal to be reasonably certain, we will account for the lease as having been renewed. This is a material judgement and so we have developed a number of objective tests to ensure that leases are treated consistently. At the end of 2018 there were 264 property leases in this situation that we intend to capitalise for this reason. These properties account for £40 million of the assets and liabilities referred to above and £0.4 million of the expected decrease in profit.

Cash flow and capital structure

The net cash inflow from operating activities in the year was £136.2 million (2017: £116.9 million). At the end of the year the Group had net cash and cash equivalents of £88.2 million (2017: £54.5 million).

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. The current cash position is clearly above this level, reflecting the strength of performance in 2018 and some short-term changes to working capital and the phasing of capital expenditure.

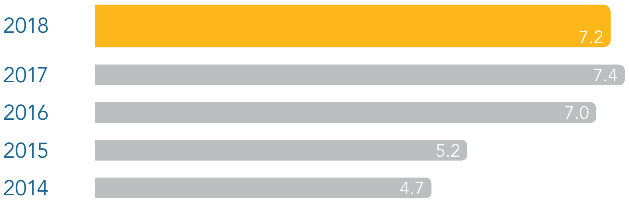
Given the current political and economic uncertainties facing the UK, the Board believes that maintaining a strong cash position is advantageous to the Company. Looking forward, after taking into account the Company's investment requirements and the intention to maintain our progressive dividend policy, it is likely that a proportion of the current cash position will be surplus to requirements. We are keeping our plans under active review and currently expect to be in a position to declare a special dividend at the time of the interim results in July 2019.

Richard Hutton
Finance Director
7 March 2019

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

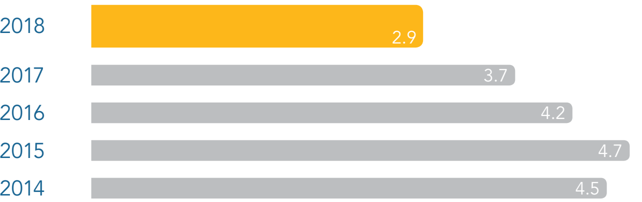
The definition of these KPIs and our performance over the last five years is detailed below. All of the non-GAAP measures detailed can be calculated from the GAAP measures included in the annual accounts. Commentary on these KPIs is contained within the financial review:

Total sales growth:
7.2%



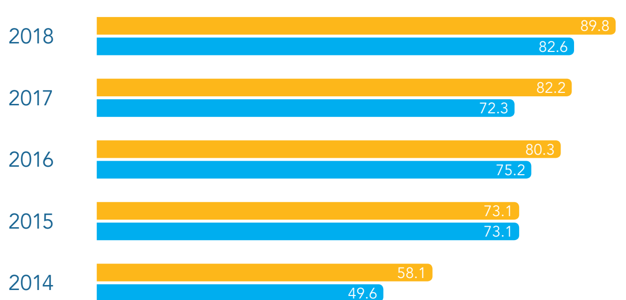
The percentage year-on-year change in total sales for the Group, adjusted for the impact of a 53-week year in 2014.

Like-for-like sales growth:
2.9%



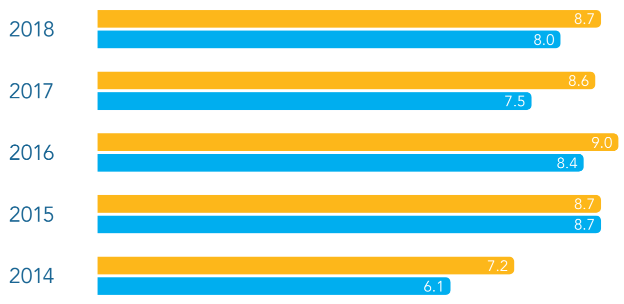
Compares year-on-year cash sales in our company-managed shops, with a calendar year's trading history. Like-for-like sales growth includes selling price inflation and excludes VAT. The impact of shop refurbishment is included in like-for-like sales growth. The calculation of these figures can be found on page 110.

Operating profit:
£89.8 million

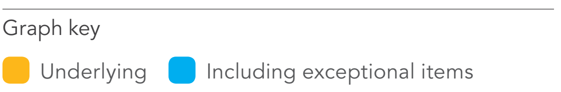


Reflects the performance of the Group before financing and taxation impacts and the underlying measure excludes any exceptional items arising in the year.

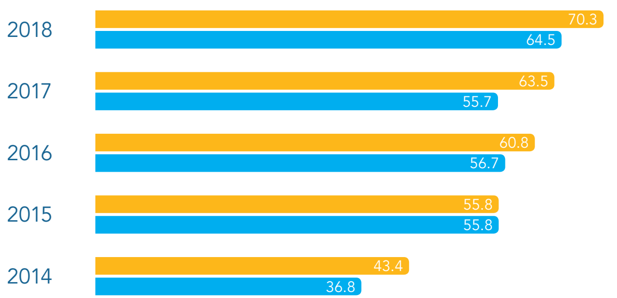
Operating margin:
8.7%



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

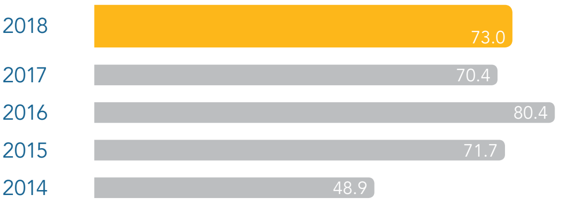


Diluted earnings per share (pence):
70.3 pence



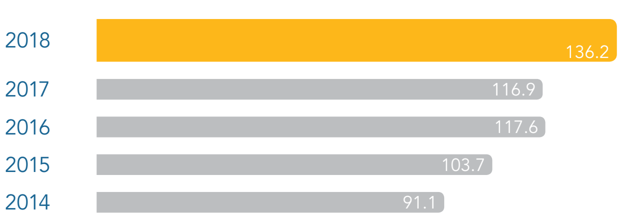
Calculated by dividing profit attributable to shareholders by the average number of dilutive outstanding shares. The underlying measure excludes any exceptional items arising in the year.

Capital expenditure:
£73.0 million



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

Net cash inflow from operating activities:
£136.2 million



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

Return on capital employed (ROCE):
27.4%

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 can be found on page 110.

Non-financial key performance indicators

KPI	Our commitment	2018 targets
	Customer health We encourage healthier food-on-the-go choices	– 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)
	Responsible sourcing We care about where our ingredients come from	– Maintain Tier Two BBFAW (Farm Animal Welfare) – All of our retail paper and board packaging to be from accredited sustainable materials
	Community We share our success with the people around us	– Work with Greggs Foundation to maximise its impact – Launch a national initiative in Breakfast Club schools to promote good food choices
	Environment We aim to use energy efficiently and minimise waste	– 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)
	People We are committed to creating a great place to work	– Complete the relaunch of our culture and values programme – Successfully deliver year two of our 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%

1 We fell short in 2018 with sales of £230 million vs. target of £250 million.
2 We did achieve our aim to donate £3.4 million to the Greggs Foundation. We didn't fully launch our new Foundation Software system in 2018 as commissioning and testing (to make sure it worked fully and correctly) was not completed by the end of the year but will be implemented fully in early 2019.
3 We tested a number of initiatives to reduce single-use plastic in 2018 and intend to roll these out across the whole estate in 2019. This includes replacing plastic carrier bags with paper, replacing plastic cutlery with wood and removal of plastic sheets for confectionery products – once implemented this will remove over 300 tonnes of plastic from our operations. In addition, we trialled instore collection of used hot drinks cups (any brand) and are also part of the two significant recycling schemes for used hot drinks cups (ACEUK and Valpak), incentivising the wider waste industry to implement collection infrastructures across the UK.
4 While we have made significant progress in this area, it is important to us that our colleagues help to shape the programme. This consultative approach has required a longer lead time than first anticipated.
5 We saw a fantastic improvement in our supply and logistics operations with a >35 per cent improvement, however our retail performance dipped compared to 2017 results (which showed an unprecedented improvement) but the result was still a further improvement on 2015 and 2016 showing a general improving trend.

Status	2019 targets		Champion	United Nations Sustainable Development Goals
[1]	Reduce sugar by 20% in line with the Government's Childhood Obesity Plan (based on 2015) **20%**	Healthier Choice sales to be 25% of our overall sales mix by end of 2019 **25%**	Commercial Director	3 GOOD HEALTH AND WELL-BEING
	Maintain Tier Two BBFAW (Farm Animal Welfare) **Tier Two**		Commercial Director	12 RESPONSIBLE CONSUMPTION AND PRODUCTION
[2]	Tackling Health initiative to reach 250 schools **250 schools**		Finance Director	11 SUSTAINABLE CITIES AND COMMUNITIES
[3]	Reduce our carbon intensity by a further 2% **2%**	Increase our unsold food donations to 25% **25%**	Property and Business Development Director	13 CLIMATE ACTION
[4] [5]	Deliver year three of the National Equality Standard action plan **Year 3**	Increase the frequency of our Employee Opinion Survey to twice yearly **2x**	Retail and People Director	10 REDUCED INEQUALITIES

Carbon footprint

Our net carbon footprint for the 2018 financial year was 101,208 tonnes of carbon dioxide and equivalent gases (CO_2e), with an intensity of 99.07 tonnes of CO_2e per £million turnover. This represents a 14.3% improvement on our 2017 result.

Global GHG emissions data

In line with Companies Act 2006 (Strategic Report and Directors Report) Regulations 2013, we are reporting our greenhouse gas (GHG) emissions as part of our annual strategic report. Our GHG reporting year is the same as our financial year from 31 December 2017 to 29 December 2018.

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 and include emissions from manufacturing, retail and distribution sites and the operation of our distribution fleet. 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 (2018).

The 2018 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 since the start of 2019 we have been once 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).

Gender of workforce[1]

We are proud of our reputation for bringing the best talent through the business regardless of gender and that 69.6 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	60	78	138
Other managers	277	279	556
All employees	15,945	6,955	22,904*

* The 'All employees' total figure is greater than the sum of the female and male figures because we have four employees whose gender is recorded as 'Unknown' or 'Undeclared' on our personnel database.

		Current reporting year 2018 (tonnes of CO_2e)	Comparison year 2017 (tonnes of CO_2e)	Base year (2015)	% change 2018 v base year
Location based emissions					
Scope 1	Combustion of fuel & operations of facilities	**33,245**	32,460	31,509	5.51%
Scope 1	Refrigerants	**6,282**	7,222	4,306	45.89%
Scope 2	Electricity purchased for own use (inc PV generated electricity)	**61,938**	71,821*	89,375	(30.70%)
Gross emissions	Total scope 1 + 2 CO_2e emissions	**101,465**	111,503*	125,244	(18.99%)
Net emissions	Net emissions excluding PV	**101,208**	111,204*	124,776	(18.89%)
NET intensity measure	Tonnes of CO_2e per £m turnover adjusted to account for use of renewable energy	**99.07**	115.61	149.29	(33.64%)

* Scope 2 emissions for 2017 have been adjusted as electricity emissions in 2017 were under reported.

1 For a copy of our 2018 Gender Pay Gap Report please visit https://corporate.greggs.co.uk

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.

Business Assurance Function

Insured risks | Functional risks | Project risks | Key strategic risks | Other strategic risks | New & emerging risks

↓

Risk Manager

↓

Risk Committee/Operating Board

↓

Main Board/Audit Committee

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

The Directors have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity.

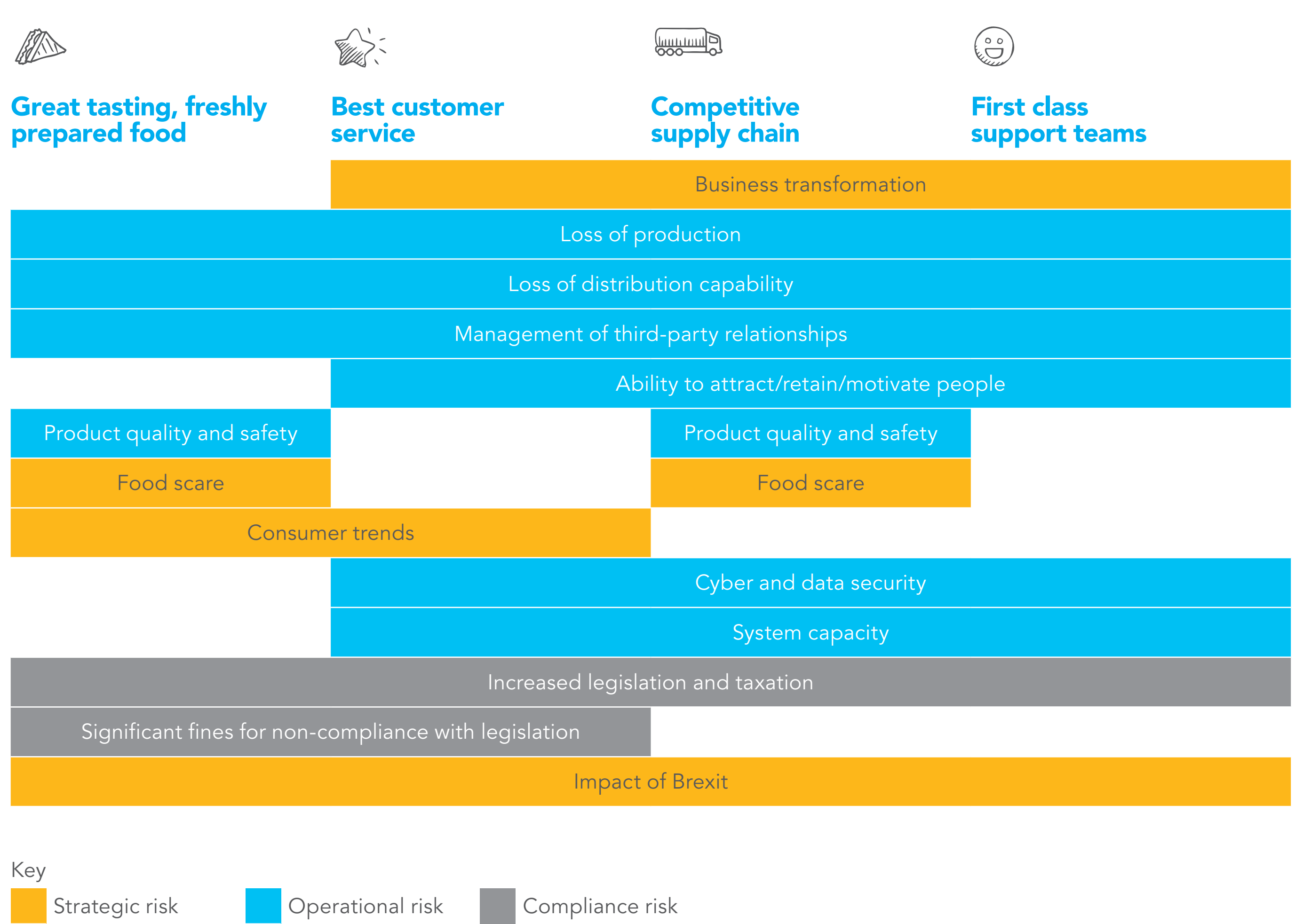
Where appropriate, the impact of these risks occurring has been considered when developing the scenarios tested as part of the financial viability statement as set out on page 37.

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 summary of the position at the date of the annual report.

In this year's statement, we have separately stated the risks of business change relating to our transformation programme and our IT systems implementation. This is due to the fact that the two risks diverge in their nature and mitigations as the transformation agenda nears completion. We have also specifically described a broader risk of increased legislation, which previously focused on the financial impact of non-compliance.

Previously disclosed risks relating to the wider economy and our response to competitor activity have been removed, since we have robust routine management processes in place to control these issues and we are able to flex our business model as required.

The risks are grouped according to their overriding theme, and are described along with the strategic pillars to which they are linked, and the movement in net risk during the year.



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.
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 to, 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 and the supply of products, 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 plans to 2021. This is the period over which the Board reviews management's business planning and sets performance targets, and therefore the Board believes that this is the most appropriate timeframe over which to make the viability assessment.

The Directors have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity.

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, 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.
4. The possible impact of Britain leaving the EU without a trading agreement, assuming the imposition of tariffs on imports, disruption to the flow of goods into the UK and a consumer downturn.

Scenario four above was applied as an additional layer of risk, in order to test how the impact of Britain leaving the EU without a trading agreement would affect the Company's viability in the other scenarios.

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.

Principal risks and uncertainties

Organisational capacity

Risk	Description
Business transformation	Our business change programme continues, requiring restructuring and capital investment. Expected timelines or savings may not be met, and there may be disruption to our customers.
Loss of production	As we continue to move towards more centralised production, any interruption to production may have a significant impact on availability of product for our customers.
Loss of distribution capability	We are creating larger distribution Centres of Excellence with a greater reliance on technology. This increases the impact of any operational failure on our ability to deliver to our shops.
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.

Brand reputation

Risk	Description
Product quality and safety	Due to our vertically-integrated structure, and the fact that we freshly prepare food every day in our shops, 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.
Consumer trends	As customers become more concerned about nutrition and health, demand for the more indulgent products in our range may reduce.

Technology

Risk	Description
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.
System capacity	Our IT systems may have insufficient capacity to keep pace with the required rate of change. Greater system integration and interconnectivity results in an increased impact in the event of any process failure or technology outage.

Regulatory compliance

Risk	Description
Increased legislation and taxation	New legislation may necessitate additional processes, such as allergen controls in our shops. Continued growing concern over the environment and health may drive the introduction of additional levies and taxes.
Significant fines for non-compliance with legislation	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.
Impact of Brexit	There is continued uncertainty regarding changes to trading arrangements, customs agreements, tariffs etc. post Brexit. This may give rise to increased costs and inflationary pressures, with a resultant risk of recession. Any currency devaluation would cause the costs of imported goods to increase. Short-term border disruption could impact on our ability to import salad ingredients.

Great tasting, freshly prepared food

Best customer experience

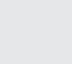
Competitive supply chain

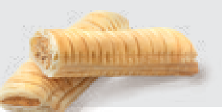
First class support teams

Key mitigations	Change	Links to strategy
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 closely monitored and reported on a regular basis to our Operating Board.	No change	
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, and periodically test these alternative routes. Our property insurers conduct annual site inspections, helping us to protect our facilities. We also believe that to an extent customers will choose an alternative product if their first choice is not available.	Increase	
We work closely with our property insurers in our building design, to ensure an appropriate level of protection. As with our production sites, annual inspections are carried out by our insurers. We are refreshing our site-based contingency plans to ensure that they remain relevant for dedicated distribution centres. Our IT disaster recovery plans are being updated as part of a review of our approach to cyber risk.	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.	No change	
We offer attractive remuneration and benefit packages to reward our teams, along with training and development opportunities. We carry out an annual opinion survey which confirms high levels of employee engagement. We are continually striving to streamline and simplify our shop processes and operations for our teams. As part of our business change programme, we have invested in improved recruitment processes, making the application journey easier for a potential employee.	No change	

Key mitigations	Change	Links to strategy
Procedures are in place throughout our supply sites and shops to ensure that food safety is maintained. Compliance is monitored both internally and by regulators. We are working with industry bodies to help to shape new allergen controls and regulations.	Increase	
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. We have robust procedures in place to execute product withdrawals quickly should the need arise.	No change	
We continue to work on improving the nutrition of our traditional products, including a commitment to reduce sugar and fat in line with Public Health England's guidance. Our 'Balanced Choice' range provides a number of healthier options, and we continue to develop new lines catering for emerging dietary choices.	No change	

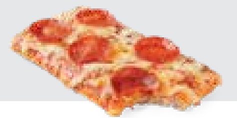
Key mitigations	Change	Links to strategy
We actively monitor our networks and systems, including conducting regular penetration testing. Our approach to information security is closely monitored by the Board.	No change	
Our development plans take into account the business vision, to ensure appropriate 'future-proofing'. We work closely with partners to provide additional capacity and technical expertise when required. Contingency plans continue to evolve in response to system and process changes.	New	

Key mitigations	Change	Links to strategy
We are working closely with industry bodies in responding to Government proposals on the communication of allergen content in food. We are continuing to work on our plans to meet the Government's sugar and calorie reduction targets. In order to reduce our impact on the environment, we are trialling coffee cup recycling, conducting a plastic-free trial in our shops, and continuing to reduce our carbon intensity.	New	
We have a system of controls and monitors 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. We are in the process of setting up a Primary Authority arrangement with Newcastle City Council for Food Safety, which will mirror that already in place for Health & Safety, and fire safety.	No change	
Developments continue to be monitored, with regular review by our Operating Board. Purchasing contracts give price stability in the short to medium term. Contingency arrangements have been developed where possible.	Increase	

Name & job title	**Ian Durant** Chairman	**Roger Whiteside OBE** Chief Executive	**Richard Hutton FCA** Finance Director	**Helena Ganczakowski** 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. Ian is an experienced non-executive director of UK-listed companies, having previously served on the Boards of Westbury, Home Retail Group and Greene King. He was Chairman of Capital and Counties Properties plc between 2010 and 2018.	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, and awarded an OBE for services to Women and Equality in the 2019 New Year Honours List.	Richard qualified as a Chartered Accountant with KPMG and gained career experience with Procter and Gamble before joining Greggs in 1998.	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	**5 October 2011**	**17 March 2008 (Non-Executive Director until 3 February 2013)**	**13 March 2006**	**2 January 2014**
Independent	Yes	Not applicable	Not applicable	Yes
External appointments	Chairman of DFS Furniture plc. Trustee of Richmond Parish Lands Charity	Member of the Women's Business Council. Non-Executive Director of Card Factory plc.	Non-Executive Director and Chair of the Audit Committee of The Lakes Distillery Company plc. Trustee Director of Business in the Community. Trustee of Greggs Foundation. Trustee of The Alnwick Garden Trust.	Non-Executive Director of Croda International Plc and also owner and manager of a consulting business working at a global level with multi-national food businesses, helping them to develop and implement strategies.
Committee membership	Chair of Nominations Committee	Not applicable	Not applicable	Audit, Remuneration and Nominations Committee member
Favourite Greggs snack				

Board diversity

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

Name & job title	**Allison Kirkby** Non-Executive Director	**Peter McPhillips** Non-Executive Director	**Sandra Turner** Non-Executive Director	**Jonathan Jowett** Company Secretary and General Counsel
Biography	Allison Kirkby was appointed President & Group CEO of TDC Group A/S in December 2018. TDC is the leading provider of technology, communication solutions and home entertainment in Denmark. She previously served as President & Group CEO of Tele2 AB. Prior to joining Tele2 in 2014, Allison spent two decades in the FMCG sector at Procter & Gamble in a variety of senior financial and operational roles before moving into the TMT sector, first at Virgin Media and then as Group CFO of Shine Group (a division of 21st Century Fox). Allison is a Fellow of the Chartered Institute of Management Accountants (CIMA).	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.	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.	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	**30 January 2013**	**10 March 2014**	**1 May 2014**	**12 May 2010**
Independent	Yes	Yes	Yes	Not applicable
External appointments	Non-Executive Director of BT Group plc.	Non-Executive Director of Browns Food Group. Non-Executive Director of Jackson's Bakery Limited.	Non-Executive Director of Carpetright plc, McBride plc, Greene King plc and Huhtämaki OYJ (from 1 May 2019).	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	Chair of Audit Committee; Remuneration and Nominations Committee member	Audit, Remuneration and Nominations Committee member	Chair of Remuneration Committee; Audit and Nominations Committee member	Secretary to Board and all its Committees
Favourite Greggs snack				

4:3

Board diversity, by gender

Male	Female
57%	43%

7.3

Board diversity, by tenure (years)

	3-7 years		>7 years
	Male	Female	Male
	14%	43%	43%
Average (years)	5.1		10.3

We have enjoyed a period of stability on the Board

Dear Shareholder
I am pleased to introduce our governance report for 2018, which follows on pages 43 to 50.

We have seen some significant governance developments in 2018, culminating in the revised UK Corporate Governance Code ('the 2018 Code'), which was issued in July. Perhaps the main area of focus has been around directors' duties under s172 Companies Act 2006, which although it has been law for many years, was brought into sharp focus as a result of certain corporate failures.

Although the new requirements of the 2018 Code have only just started to apply, we have borne them in mind in preparing this report, and we have included a first attempt, on a voluntary basis, at the more formal reporting requirements in relation to s172 (see stakeholder engagement section page 48). Otherwise this report has been prepared to reflect the April 2016 version of the Corporate Governance Code, with which we were compliant across the year.

The other key development to emerge from the 2018 Code was the requirement for the Board to focus on its leadership, ensuring that the Company's purpose, values and strategy are aligned with its culture.

Our 'purpose' forms an integral heading to our strategy; it is 'making good tasting, freshly prepared food accessible to everyone'. This is in turn is reflected in our vision: To be the customers' favourite for food-on-the-go. Our whole business strategy, described in the strategic report on pages 1 to 39, underpins this purpose and vision.

Our culture and values deserve specific mention. In 2018, we embarked upon a broad review of our culture, engaging with our colleagues across the organisation, as we began to work on a more detailed understanding of how our culture works; as a Board we all believe that there is a very special culture within Greggs, borne of the family values instilled into the business by our founders. In recent years, we have been taking some significant decisions around centralisation of our operations and, more recently, our supply chain. In some instances, these have led to factory closures and some job losses, whilst at the same time continuing to grow the business organically. The Board is always keen to ensure that these activities do not endanger the culture in a rapidly-changing and competitive market place. We asked our employees for their thoughts as part of our annual Employee Opinion Survey, and we will be undertaking further work during 2019, which commenced with a session at our Annual Management Conference held in January.

Insofar as measures of culture and, in particular, colleague engagement are concerned, we will be building on what we believe are firm foundations; some 93 per cent of our 23,000 colleagues took time to respond to our survey, and indicated an engagement level of 82 per cent.

Towards the end of the year, we undertook our second externally-facilitated Board evaluation, supported as before by NJMD Corporate Services Limited. That report has captured the essence of Greggs and how we operate, in noting that

"…the value and culture currently displayed by the Board, as part of the inherent culture and heritage of the Company, contributes to an open and honest environment which is encouraged by the [Governance] Code. We noted the respect and enthusiasm of all of the interviewees for the culture of the Company and their recognition of its beneficial effect on successful business operations".

I look forward to welcoming as many shareholders as possible to our Annual General Meeting.

Ian Durant
Chairman
7 March 2019

The remainder of this corporate governance report, together with the reports of the Audit, Nominations and Remuneration Committees on pages 51 to 72, explains 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. With the exception of Allison Kirkby, all of the Directors will be seeking re-election at our Annual General Meeting to be held on Tuesday 21 May 2019.

The Company has a premium listing on the London Stock Exchange, and throughout 2018 was a constituent of the FTSE 250 Index. The April 2016 version of the UK Corporate Governance Code ('the Code') applied throughout 2018. This governance report, together with information contained elsewhere within the Directors' report, describes how the relevant principles and provisions of the Code were applied in the year.

For the current financial year, which commenced on 30 December 2018, the Company will be applying the UK Corporate Governance Code issued in July 2018 and effective from 1 January 2019 ('the 2018 Code').

The Board confirms that it was compliant with the 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 Executive Directors are fully discussed and critically examined prior to adoption.

The main stakeholder activities of the Board are described in the stakeholder engagement section on page 48.

The Board schedules an agreed number of 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	**8**	**4**	**2**	**2**
Ian Durant	✓✓✓✓✓✓✓✓	–	–	✓✓
Roger Whiteside	✓✓✓✓✓✓✓✓	–	–	–
Richard Hutton	✓✓✓✓✓✓✓✓	–	–	–
Helena Ganczakowski	✓✓✓✓✓✓✓✓	✓✓✓✓	✓✓	✓✓
Allison Kirkby	✓✓✓✓✓✓✓✓	✓✓✓✓	✓✓	✓✓
Peter McPhillips	✓✓✓✓✓✓✓✓	✓✓✓✓	✓✓	✓✓
Sandra Turner	✓✓✓✓✓✓✓✓	✓✓✓✓	✓✓	✓✓

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

The Board continued

Board modus operandi

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

The Board considers that it effectively leads and controls the Company. All Directors take decisions objectively and in the interests of the Company. The Non-Executive Directors scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance. This is done using an 'OGSM' model, whereby the key objectives for the year are agreed at a strategy meeting held in June of the preceding year, and are then reported upon across the year by the Chief Executive and members of the Operating Board with responsibility for particular objectives.

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.

The Board continued its practice introduced in 2017 of making additional operating information available to Non-Executive Directors in the expectation that this adds further colour to the debate and discussion at Board meetings. Board papers 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.
- The implications of 'Brexit'.
- Customer insight, competitor activity, marketing and category plans.
- Wage negotiations and people issues.
- Food safety and health and safety.

The Board sets 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 continues to support the development of all colleagues and specifically continues to support women through to the highest levels of our organisation. Members of the Board are actively participating in our Women's Development Programme sharing their knowledge and experiences with participants. Our gender reporting is now contained in page 34 of the strategic report. We continue to make progress and once again were recognised by the Hampton Alexander Review published in November 2018 as a top 10 FTSE 250 Company for Women on boards and in Leadership. In December 2018, our Chief Executive was appointed as an Officer of the Order of the British Empire in recognition of this work in promoting the interest of Women and Equality.

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. During 2018, this included a review of remaining terms of office for Non-Executive Directors, and the formulation of a rolling succession plan. Further detail is set out on page 45 under the Nominations Committee section of this report.

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, and in 2018 the evaluation was facilitated by Nigel Davies of NJMD Corporate Services Limited. Mr Davies had conducted the previous externally-facilitated evaluation carried out in 2015.

As a key part of the 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 are free from any business or other relationship or circumstance which is likely to affect or to interfere with the exercise of their independent judgement.

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 51 to 56.

The Remuneration Committee currently consists of four independent Non-Executive Directors: Sandra Turner (Chair), Helena Ganczakowski, Allison Kirkby and Peter McPhillips. The Chief Executive and the People Director have a standing invitation to attend the Remuneration Committee. The Finance Director is also invited to attend Remuneration Committee meetings from time to time to help the Remuneration Committee determine and measure and monitor performance against set targets. The Chair of the Remuneration Committee is absolutely clear that Executives are required to step out of the meeting from time to time to enable the Committee to discuss key elements of remuneration in closed session.

The Committee's main duties (which it discharged during the year) are detailed within the Directors' remuneration report which is set out on pages 57 to 72 of this annual report. Shareholders approved the current remuneration policy at the meeting held on 19 May 2017, and this is included on pages 60 to 64 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.

Following an informal selection process conducted in 2018, the Nominations Committee appointed JCA Heidrick Struggles ('JCA') to assist with succession planning and identification of potential Non-Executive Directors.

During the year, the Nominations Committee developed, debated and agreed a Board succession plan. The first action identified was to plan for the need to appoint a successor to Allison Kirkby as Non-Executive Director and Audit Committee Chair. Allison's departure was announced on 7 March 2019, and Allison will not offer herself for re-election as a Director at the Annual General Meeting on 21 May 2019, having served six years on the Board. A brief for the role was developed by the Committee which takes account of the expected strategy and needs of the business to ensure the Board has ongoing access to a good mix and diversity of skills and background. The recruitment is being led by the Chairman and the Senior Independent Director and the Nomination Committee was advised by JCA. Several candidates were considered from a short list prepared from a longer list which had been discussed with the Chairman and the Senior Independent Director. Visits for shortlisted candidates will be arranged to head office, shops and a manufacturing unit.

Following appointment, new Directors are subject to an in-depth tailored induction process. In the case of Non-Executive Directors, this includes meeting with all 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 present at a Board meeting formal feedback of their first months on the Greggs Board.

Risk management

Details of the Company's principal risks and the management of them are set out within the strategic report, on pages 35 and 36.

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.

The Chairman adopts an ongoing policy of arranging to meet with major shareholders, and the Non-Executive Directors are encouraged to attend external meetings and events which provide them with the opportunity to engage generally with the investment community.

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 80 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 2018, 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, Sandra Turner, 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 7 March 2019 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	10,029,195	9.915%
Standard Life Aberdeen plc	5,765,652	5.700%
Kames Capital plc	3,073,582	3.038%
Norges Bank	3,035,673	3.001%

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, each year the Audit Committee is 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: https://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 1 to 39, 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 73. A statement of auditor's responsibilities is given in the report of the auditor on pages 78 and 79.

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 85). The Board's 'viability statement' made in accordance with Code provision C.2.2 can be found on page 37.

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 fear 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.

Stakeholder engagement

This statement is intended by the Directors to set out how they have approached and met their responsibilities under s172 of Companies Act 2006 in the financial period ending 29 December 2018. It is in response to the obligations as set out in the Companies (Miscellaneous Reporting) Regulations 2018, and the UK Corporate Governance Code July 2018, and as such forms part of the strategic report of the Company's annual report and accounts.

As the new reporting requirements became clearer, the Directors considered a stakeholder analysis, using the 'Power/Interest' model, and the outputs from this review will set the agenda for ongoing engagement in 2019, focusing on with whom Directors should engage and communicate, either collectively or individually, and how feedback, general or specific, will be considered during the decision-making process.

Stakeholders identified during the mapping exercise included our 23,000 colleagues, agency workers and consultants, suppliers of both goods and services, shareholders (both institutional and retail), customers, City analysts, the financial and consumer press, the communities in which our shops are located, the communities that benefit from moneys donated to the Greggs Foundation and other charitable causes, the Government and NGOs.

The following are some examples of the interactions that have taken place in 2018.

Shop and bakery visits

Each year the Board meets at a production location. In 2018, the Board met in Leeds, whilst the production centre was undergoing significant building works with the installation of an automated cake line and the building of a new high-care facility. This walkaround allowed Directors to engage with colleagues about the changes and the difficulties they were having to overcome to ensure that production could continue amidst the works. Additionally, the Directors visited six stores in Leeds city centre, led by the Retail Operations Manager and the Area Manager for the region. Directors were able to speak with shop colleagues and customers about the shop environment and sales generally.

Individually, several of the Non-Executive Directors have spent time with the Retail Operations Director or with a Head of Retail visiting shops in different parts of the country, looking at product range and speaking with shop teams.

Supply chain restructuring programme meetings and visit

There was a significant amount of change in our bakeries during 2018. There were new automated production lines brought onstream in Leeds, Gosforth and Manchester. Peter McPhillips, whose executive career was focused around food production, attended these sites during the change process, and also attended meetings of the Supply Chain Leadership Team as it effected the change programme.

AGM engagement

Our AGM is always well attended. There are generally some 80 attendees, being mainly private shareholders. The Board mingles with attendees before the meeting, and during a sit down Greggs buffet lunch following the meeting. The question and answer session during the AGM covers a variety of subjects and generally lasts for 45 minutes to one hour.

Audit Committee Chair engagement

Having been identified as an opportunity during the 2017 Board Evaluation, Allison Kirkby, Audit Committee Chair, attended a meeting of the Risk Committee. This Committee is a management Committee, and is attended by both Executive Directors and all members of the Operating Board, along with the Heads of Financial Reporting, Technical, Business Assurance, Procurement, the Health & Safety Manager and the Risk Manager. This provided Allison with the opportunity to understand the detailed review of risk undertaken by management and the mitigations in place and under development.

Allison also regularly meets with the Audit Partner from KPMG, and with members of the Finance team and Head of Business Assurance ahead of Audit Committee meetings.

2019 plan

During 2019, stakeholder sessions that Non-Executive Directors are planning to attend include:

- Significant shareholders.
- Listening groups with colleagues.
- Customer panels.
- Key supplier meetings.

Directors and their interests

The names of the Directors in office during the year, together with their relevant interests in the share capital of the Company at 30 December 2017 and 29 December 2018, are set out in the Directors' remuneration report on page 71. Details of the Directors' share options are set out in the Directors' remuneration report on page 70.

In accordance with provision B.7.1 of the Governance Code, all Directors will retire from the Board at the AGM, and will all offer themselves for re-election, apart from Allison Kirkby, who steps down from the Board at the close of the AGM to be held on 21 May 2019.

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

Additional information

- The information set out within the governance report in pages 43 to 50 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 34.

Authority to purchase shares

At the AGM on 9 May 2018, 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 29 December 2018.

The authority remains in force until the conclusion of the AGM in 2019 or 14 August 2019, whichever is the earlier. It is the Board's intention to seek approval at the 2019 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 7 March 2019, 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);

Takeover directive information continued

- under the Company's code on dealings in securities in the Company, persons discharging managerial responsibilities and some other senior executives may in certain circumstances be restricted as to when they can transfer shares in the Company;
- there are no agreements between shareholders known to the Company which may result in restrictions on the transfer of shares or on voting rights;
- details of significant holders of the Company shares are set out on page 46;
- 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 AGM, any Director appointed by the Board since the last AGM must retire from office but is eligible for election by the shareholders. Furthermore, the Board has resolved that, in line with the UK Corporate Governance Code (2016 revision) 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 AGM, 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 62 and 63. However, provisions in the employee share plans operated by the Company may allow options to be exercised on a takeover.

Employees

Applications for employment of disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff 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)

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

7 March 2019

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

Favourite Greggs snack:
"A bacon roll sets me up for the day."

Introduction

I am pleased to introduce the report of the Audit Committee for 2018.

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 2019 will be the implementation of IFRS 16 leasing and associated reporting and the Company's ongoing supply chain investment programme and the associated exceptional charges. Cyber security matters continue to be a priority for the Committee.

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 following report.

Allison Kirkby
Chair of the Audit Committee
7 March 2019

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 2018, however, Allison Kirby will retire from the Board at the Annual General Meeting in May and will not be seeking reappointment.

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 40 and 41 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 43.

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 2018 made contact several times with, an audit partner independent of the partner responsible for the audit.

Financial reporting

In 2018 the Audit Committee reviewed the 2017 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 29 December 2018 are as follows:

Area of focus	Action taken
Understanding and treatment of exceptional items The accounts include exceptional items in the current year. Total exceptional costs of £7,213,000 were incurred in 2018 (2017: £9,862,000). £5,947,000 (2017: £10,060,000) of this relates to the restructuring of supply chain operations and in 2018 comprises mainly the one-off costs associated with the transfer of activity between sites as we consolidate our manufacturing operations into centres of excellence. Costs in the prior year related largely to redundancy – a full breakdown for both years is given in Note 4 to the accounts. A charge of £1,682,000 in relation to the gender equalisation of guaranteed minimum pensions (GMP) payable from our defined benefit pension scheme was recognised as exceptional. The judgements applied in recognising this amount are noted below. The one-off nature of this charge led to its disclosure as exceptional. In addition £416,000 (2017: £198,000) was credited to exceptional items being the release of prior years' provisions relating to the settlement of various property transactions.	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: i) 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; and ii) the equalisation of GMP payable from our defined benefit pension scheme. The Committee ensured that consistent principles were established (and agreed with the external auditor) early in the process and that reporting is suitably clear. The Committee gave careful consideration to the judgements made in the separate disclosure of non-underlying items, both in respect of events occurring in 2018 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 charges incurred in 2018 related to the supply chain investment programme and GMP equalisation.
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. The UK High Court ruled on 26 October 2018 in respect of the gender equalisation of GMPs for occupational pension schemes. The judgement requires equalisation between men and women for the effect of unequal GMPs accrued between 1990 and 1997 and describes the applicable ways in which the benefit entitlements should be equalised. Detailed individual calculations have yet to be performed by the scheme actuary – an estimate of the additional liability has been incorporated in the accounting valuation of the defined benefit obligation at 29 December 2018 as a plan amendment. The resulting charge to the income statement has been treated as an exceptional item as noted above. Any difference between this estimate and the actual liability will be recognised in other comprehensive income in the year in which it is determined. The net liability held in relation to defined benefit pension schemes at the end of 2018 was £8,416,000 (2017: £7,506,000) and the exceptional charge to the income statement was £1,682,000 (2017: £nil).	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.

Area of focus	Action taken
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 47 of the Directors' report.
Viability The Board is required 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.	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. In particular, the possible impact of a 'no deal' Brexit scenario was applied in combination with other principal risks. 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 37 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. In particular it reviewed the Company's preparations for the implementation of IFRS 16 Leases which becomes effective at the start of 2019. IFRS 16 will have a material impact on the Company's accounts and requires the exercise of several key judgements. The Committee reviewed and challenged the judgements that the Company proposes to adopt to ensure that they are appropriate; and
- reports from the Company Secretary and Finance Director which assess the Company's compliance with the Listing Rules.

One areas which was previously considered to be significant – accounting for dilapidations – is 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.

During the year Mick Thompson retired by rotation as audit partner and has been 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.

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 2018 for the Group but the Audit Committee is satisfied that its objectivity was not impaired by such work.

In 2018, the charge to the income statement in respect of non-audit fees paid to KPMG LLP and related KPMG operations amounted to £5,000 (which is 17 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.

Risk management and internal control continued

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 staff welfare and shop facilities. Both events were reported directly to the Chair of the Audit Committee by email. One instance was resolved by working with the local management team and the other was found to be unsubstantiated. 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; however, the policy will be refreshed and updated during 2019 as part of a wider review of corporate policies.

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 35, and has been reviewed by the Committee to confirm its appropriateness in light of the risks identified. The Committee Chair also attended a meeting of the Risk Committee during the year. The key areas that the Committee has specifically considered are as follows:

Area of focus	Action taken
New and emerging risks	The Audit Committee reviews areas of new and emerging risk as identified by the business via the Risk Committee as a standing item on its agenda. It raises any other areas which it believes should be documented within the Company's risk register.
Financial reporting and control	Judgemental areas in the accounts are considered by the Committee, to provide challenge to the process. The Company's approach to lease accounting requirements under IFRS 16 has been discussed. Amendments to the accounts receivable policy and delegated authorities have also been reviewed and approved.
General Data Protection Regulation (GDPR)	Regular updates on preparation for the implementation of GDPR were received by the Committee during the first half of the year. Since the regulation came into force in May, members have received commentary on compliance and associated activity.
Cyber risk and information security	The adequacy of the Company's approach to cyber risk and information security is considered at every Audit Committee meeting, by receiving a regular update on activity.
Business transformation	The Committee continues to receive reports on the Company's transformation programme, including progress with 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 and informed by its annual review of the strategic risks faced by the business. 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 35 to 39 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.

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
7 March 2019

We have a transparent and open approach towards remuneration at Greggs

Favourite Greggs snack:
"Greggs doughnuts are the perfect sweet treat."

Dear Shareholder

I am pleased to present our remuneration report for 2018.

In line with best practice we are aiming to continue with our transparent and open approach towards remuneration at Greggs. We will continue to ensure that our report is clear, simple and easy to read providing explanations and rationale to our decision-making throughout the different sections of the report.

The report is made up of three key sections:

- My 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 and approved with a majority vote of 93.91 per cent.
- Our **annual remuneration report**, split into two sections that set out:
  - how our remuneration policy will be implemented in 2019; and
  - how our remuneration policy was implemented in 2018. 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 29 December 2018.

The annual remuneration report will be subject to an advisory shareholder vote at the 2019 AGM.

We are in year two of a three-year policy, and in developing how we apply this policy the Remuneration Committee is 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 2018, the Committee has continued to assess the effectiveness of overall levels of remuneration and the alignment with business strategy and has reviewed the new UK Corporate Governance Code, emerging market practice and the best-practice expectations of investors and others. 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 advisers.

Remuneration policy

The existing remuneration policy 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) measuring long-term performance and delivered in shares.

The Committee believes that the current structure works well. It is simple and consistent, with pay outcomes dependent upon performance linked to our business strategy as well as taking into account our wider workforce and culture. 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.

Remuneration policy continued

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 five years since 2013 our company-managed shop like-for-like sales have grown by 20 per cent and pre-tax profit (excluding exceptional items) has increased by 118 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 pre-exceptional EPS growth (averaging 19 per cent per annum since 2013).

There is a strong alignment of interest between Executive Directors and shareholders, with incentive plans focused on long-term, sustainable value creation for our shareholders. We are comfortable that the policy remains appropriate to ensure the team running the business is incentivised going forwards, whilst at the same time remaining flexible enough to be applicable over the final year of the policy period. Accordingly there are no formal changes to our policy proposed for 2019. However, as recommended by the new UK Corporate Governance Code, we have reviewed the clawback and malus provisions within our incentive schemes and have decided to broaden the circumstances in which these provisions would apply, with effect from the awards to be made in 2019. We have also ensured that full discretion is able to be applied to incentive plan outcomes to ensure payments reflect broader performance factors.

During 2019 we will start the process of reviewing the remuneration policy ahead of presenting a new policy for shareholder approval at our AGM in 2020.

Performance in 2018 and incentive payments

As disclosed last year, the annual bonus scheme for 2018 was set up with performance targets based on profit (50 per cent), sales (20 per cent) and strategic objectives (30 per cent). As also disclosed, the strategic element incorporated measures linked to cost savings (ten per cent), specific project delivery within the change management programme regarding processes and systems (ten per cent) and specific project delivery within the supply chain restructuring programme (ten per cent).

The metrics linked to the change management programme involved the delivery of new systems and processes in two of our supply chain operations. However, early in the year the Board took the strategic decision not to proceed with these upgrades in 2018 due to timing issues and the desire to avoid unnecessary disruption to our activities during a critical trading period. The Remuneration Committee subsequently used its discretion to remove the related element from the bonus scheme, and the ten per cent of the bonus which had been attributed to the change management programme was redistributed between the other strategic metrics, such that cost savings accounted for 15 per cent of the overall bonus and supply chain restructuring programme for 15 per cent.

The Committee believes that the use of its discretion in this fashion was appropriate as it was not considered fair to assess management against a measure which was effectively redundant following the Board's decision not to proceed with the system and process upgrade at the beginning of the year. Redistributing the bonus between the other metrics was viewed as more appropriate than setting new targets part way through the year. The Committee is satisfied that taking this approach did not result in a bonus outcome that was inconsistent with the performance of the Company in 2018. The bonus targets used for 2018 are described in the annual remuneration report on pages 68 and 69.

Performance against the stretching targets set for the bonus was impacted in 2018 by some significant weather conditions. Although economic conditions improved somewhat in 2018 as inflationary pressures eased slightly and consumers saw growth in disposable incomes, the weather had a significant impact on trading. After a good start to the year the severe wintry conditions in early March hit sales badly and a more subdued trading period followed. In June and July the unusually prolonged heatwave affected sales, but as soon as temperatures reverted to the seasonal norm we saw a pick-up in sales growth, and this strengthened further through the fourth quarter.

As a consequence of performance over the year, both the profit and sales elements of the bonus were significantly impacted and the targets were not met in full. The profit element resulted in 38.85 per cent of a maximum of 50 per cent being achieved, with 5.2 per cent of a maximum of 20 per cent sales performance being achieved.

Cost pressures remain, particularly in labour cost growth, and despite a tight control on costs the cost savings element of the bonus resulted in 5.4 per cent of the maximum of 15 per cent being achieved.

There was a stronger performance in the strategic objectives that were set and we made good progress with our supply chain change programme. This resulted in 9.75 per cent bonus payment against a maximum of 15 per cent for this strategic element.

Overall, annual bonuses were paid at a level of 59.2 per cent of the maximum for both the Chief Executive and the Finance Director. This equates to payments of 74 per cent (out of a maximum possible of 125 per cent) and 53.3 per cent (out of a maximum possible of 90 per cent) of salary 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 PSP, awards made in March 2016 are due to vest in March 2019. These awards are based on EPS growth in excess of RPI growth over the three years to 29 December 2018 and average annual ROCE over the three-year performance period 2016 to 2018. EPS has grown in excess of RPI by 4.83 per cent and our average annual ROCE was 27.47 per cent. This meant that the EPS performance condition was achieved at a rate of 30.19 per cent and the ROCE performance condition vested in full. The calculation of total remuneration payable is therefore based on a 80.19 per cent vesting rate for the award.

The Committee is very comfortable that the level of performance achieved justifies vesting at the above level and there has been no need to apply discretion to adjust the outcome.

Approach for 2019

The salary increase for both the Chief Executive and Finance Director was in line with that of the base increase for the workforce generally at 3.0 per cent. The increases to salaries took effect from 1 January 2019. The fees payable to Non-Executive Directors increased by the same percentage with effect from the same date.

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 2019 annual bonus have been set in line with the financial plan for the business for the year and the rolling 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 percentage pay out for on-target performance for the profit and sales element of the bonus remains at 50 per cent with threshold performance remaining at a ten per cent pay out. Due to the commercial sensitivity of the 2019 bonus targets they are not disclosed within this report, but will be disclosed retrospectively in next year's report.

For 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 range has been reduced in light of the performance outlook in the coming period. The new ROCE range will be 24 per cent to 28 per cent, a slight reduction on the 25 per cent to 29 per cent range which applied to the awards granted in 2018. The Committee believes that this revised range remains appropriately stretching in light of the Company's business strategy, without encouraging undue risk-taking.

During 2019, the Committee will be considering the impact of the introduction of IFRS 16 on the EPS and ROCE targets set for PSP awards and on the profit targets set in the bonus scheme. Further details on these adjustments will be provided in next year's report.

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
7 March 2019

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 directly 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.
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.

Element	Purpose and strategy	Operation	Maximum opportunity
Savings-Related Share Option Schemes (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 can be 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 provides 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.

Remuneration policy report continued

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; – Finance Director's service contract is 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 on the next page.

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 (12 months in the case of the Chief Executive). 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

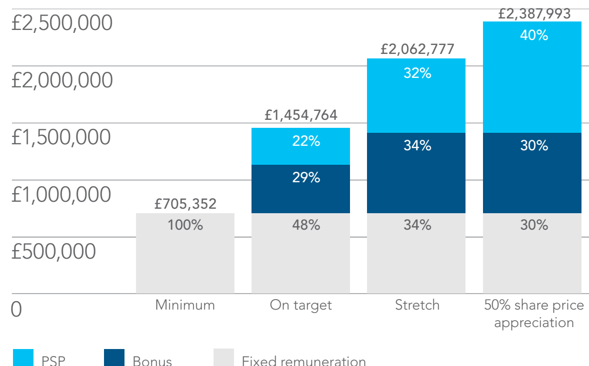
Raymond Reynolds stepped down from the Main Board on 19 May 2017.

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 2019 based on policy at 'minimum' remuneration, remuneration in line with 'on target' Company performance, and the maximum remuneration available.

Chief Executive – Roger Whiteside

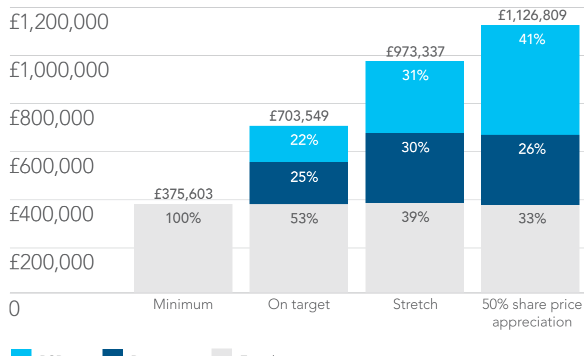


	Minimum	On target	Stretch	50% share price appreciation
Fixed remuneration:				
– salary	£565,594	£565,594	£565,594	£565,594
– pension	£127,259	£127,259	£127,259	£127,259
– benefits	£12,500	£12,500	£12,500	£12,500
Bonus	–	£424,195	£706,992	£706,992
Performance Share Plan	–	£325,216	£650,433	£975,649
Total	£705,352	£1,454,764	£2,062,777	£2,387,993

Remuneration policy report continued

Expected value of the proposed annual remuneration package for Executive Directors continued

Finance Director – Richard Hutton



	Minimum	On target	Stretch	50% share price appreciation
Fixed remuneration:				
– salary	£323,100	£323,100	£323,100	£323,100
– pension	£42,003	£42,003	£42,003	£42,003
– benefits	£10,500	£10,500	£10,500	£10,500
Bonus	–	£174,474	£290,790	£290,790
Performance Share Plan	–	£153,472	£306,945	£460,417
Total	£375,603	£703,549	£973,337	£1,126,809

Assumptions used in the charts:
Base salary levels as at 1 January 2019.
The value of taxable benefits is based on the cost of supplying those benefits (as disclosed) for the 52 weeks ended 29 December 2018.

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 per cent of profit (total 25 per cent of max potential)
– 50 per cent LFL sales (total ten per cent of max potential)
– Mid-range for costs (total five per cent of max potential)
– Full pay out for strategic elements (ten per cent for each element giving a total 20 per cent of max potential)
Calculated as 60 per cent of max potential – 75 per cent of salary for Chief Executive and 54 per cent of salary for Finance Director.
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 Chief Executive and 90 per cent of salary for Finance Director.

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, other than in the 50 per cent share price appreciation model.

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

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, and works to promote the long-term sustainable success of our business. 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 continue to give further consideration to this during 2019 in light of the changes to the UK Corporate Governance Code.

Summary of Committee activity during 2018

During 2018 the Committee has, among other things:

- Discussed and reviewed the new UK Corporate Governance Code and the new remuneration reporting regulations.
- Agreed process and timelines for the review of the new three-year remuneration policy, to begin in 2019.
- Discussed and reviewed Directors' salaries.
- Discussed and reviewed the 2018 bonus percentage, specifically reapportioning the strategic measures for the 2018 bonus.
- Discussed and reviewed the targets for bonus and PSP for the year ahead and approved new plan rules for a further ten years.
- Approved grants under the share option scheme (to senior managers below Operating Board level).
- Approved the Company SAYE scheme and approved new plan rules for a further ten years.

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 74 to 79 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 Korn Ferry supported the Committee.

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

The Committee reviewed the operating processes in place at Korn Ferry and is satisfied that the advice it receives is objective and independent. Fees paid to Korn Ferry during the year were £13,000.

Shareholder dialogue

The voting outcome from the 2018 AGM reflected strong support from both individual and institutional shareholders.

	Approve the remuneration report	
	Total number of votes	% of votes cast
For	60,115,372	97.61%
Against	1,473,132	2.39%
Total votes cast (excluding votes withheld)	61,588,504	100%
Votes withheld	169,967	
Total votes cast (including votes withheld)	61,758,471	

Annual remuneration report continued

Shareholder dialogue continued

Shareholders were asked to approve the remuneration policy at the 2017 AGM and the results are outlined below:

	Approve the remuneration policy (vote at 2017 AGM)	
	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	170,679	
Total votes cast (including votes withheld)	61,185,467	

We will continue to engage with shareholders to understand any concerns they may have about our remuneration policy and its implementation.

How our remuneration policy will be implemented in 2019 – Executive Directors

The section below summarises the implementation of our remuneration policy for 2019.

Base salary 2019

The annual base salaries for the Executive Directors were reviewed with effect from 1 January 2019; increases and current salaries are outlined below:

Director	Salary as at 1 January 2018	Salary as at 1 January 2019	% increase
Roger Whiteside (Chief Executive)	£549,120	£565,594	3%
Richard Hutton (Finance Director)	£313,689	£323,100	3%

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

Pension contribution 2019

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

Roger Whiteside	22.5%
Richard Hutton	14%

Annual bonus 2019

The annual bonus opportunity for 2019 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 2019 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 a minimum payout (five per cent) based on the implementation of two IT solutions or sites and maximum payout (ten per cent) being achieved with an additional two IT solutions or sites being implemented; and
iii. Specific project delivery within our programme for supply chain restructuring, with a minimum payout (five per cent) based on the full consolidation of two product platforms into Centres of Excellence and a maximum payout (ten per cent) being achieved with the installation of two further production platforms.

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. Targets are set at the start of the year by the Committee and are set using the outturn and performance of the previous year as well as the business plan to determine an appropriately stretching sliding scale. Retrospective disclosure of the targets and performance against them will be made in next year's annual report on remuneration, as will any considered impact of the introduction of IFRS 16 on these bonus targets.

PSP award 2019

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 range has been set to ensure that the targets remain appropriate in light of our business strategy over the coming three-year period. 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 2019 awards the target ranges will be as follows:

- The EPS performance condition will require average annual growth of EPS of five per cent to 11 per cent over three financial years measured from the 2018 financial year end.
- The ROCE condition will require average annual ROCE over the three-year performance period (2019, 2020 and 2021) to be in the range 24 per cent to 28 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. Any required adjustments following the introduction of IFRS 16 will be outlined in next year's annual report on remuneration.

How our remuneration policy will be implemented in 2019 – 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 three per cent on 1 January 2019 in line with the base award for our whole workforce in 2019.

The Non-Executive Directors are paid an annual base fee which is currently £45,979 and additional responsibility fees of £6,836 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 £6,836 will be paid.

Details of the fees being paid to Non-Executive Directors in 2019 are set out below:

Name	Position	Fee
Ian Durant	Chairman	£172,849
Allison Kirkby	Chair of the Audit Committee	£52,815
Helena Ganczakowski	Non-Executive Director	£45,979
Peter McPhillips	Non-Executive Director	£45,979
Sandra Turner	SID and Chair of the Remuneration Committee	£52,815

We will take the opportunity in 2019, to review our Non-Executive fees and remuneration to ensure that they are appropriately set and aligned to market.

Annual remuneration report continued

How our remuneration policy was implemented in 2018 (audited)

Total remuneration payable for 2018

The following table presents the remuneration payable for 2018 (showing the equivalent figures for 2017) 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						
2018	549,120	123,552	12,483	406,349	411,937	1,503,441
2017	534,163	120,186	12,441	429,467	529,236	1,625,493
Richard Hutton						
2018	313,689	41,397	17,193	167,133	183,029	722,441
2017	305,145	41,067	16,203	176,642	235,140	774,197
Raymond Reynolds						
2018	–	–	–	–	–	–
2017[2]	104,012	15,043	6,006	60,210	209,820	395,091

Notes:

1 The 2018 long-term incentive vesting values are based on the forecast value of the awards due to vest on 21 March 2019. This value will be trued up in the 2019 report to reflect the actual level of vesting and share price at the vesting date. The 2017 long-term incentive value has been restated and reflects the actual value of the awards that vested in March 2018, 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:

	2018	2017
Ian Durant	£167,815	£163,244
Allison Kirkby	£51,277	£49,880
Helena Ganczakowski	£44,640	£43,424
Peter McPhillips	£44,640	£43,424
Sandra Turner	£51,277	£49,880

Annual bonus 2018

The table below outlines the bonus performance conditions and payments to Executive Directors in respect of 2018. As explained in the statement from the Chair of the Remuneration Committee on page 58, the Committee exercised its discretion during the year to amend the weightings within the strategic objectives element of the bonus scheme.

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%	£81.5m	£86.0m	£91.5m	£89.05m	38.85%
Sales (%)	Company-managed like-for-like sales	To deliver target increase	20%	2.5%	3.5%	4.5%	2.9%	5.2%
Strategic (£)*	Cost savings		15%	£6.0m	£10.0m	–	£7.44m	5.4%
Strategic (3 elements)*	Supply chain reorganisation**		15%				Partially achieved	9.75%
Total weighting based on balanced scorecard			**100%**					**59.20%**

* As set out in the letter from the Chair of the Remuneration Committee, the Committee used its discretion to remove the 10 per cent of the bonus related to processes and systems within the change management programme and redistribute the bonus to the other two strategic measures such that cost savings accounted for 15 per cent of the overall bonus and the supply chain restructuring programme for 15 per cent.

** Further details of the supply chain reorganisation metric are set out below.

	Metric	Criteria	Payment of 15% total
Supply chain reorganisation	Transfer of production platform (doughnuts)	Delivered and operational by end of FY2018	3.75%
	Transfer of production platform (cupcakes and creams)	Delivered and operational by end of FY2018	1.5%
	Transfer of production platform (pizza and rolls)	Delivered and operational by end of FY2018	4.5%

Bonus achieved for 2018	As % of maximum
Roger Whiteside	59.2%
Richard Hutton	59.2%

The portion of the bonus earned in excess of 50 per cent of the maximum will be paid in shares.

Details of the shares awarded in 2018 for the 2017 bonus year are outlined below:

Director	Number of shares awarded
Roger Whiteside	3,477
Richard Hutton	1,146

Performance Share Plan award for performance over 2016-2018

The PSP award granted in 2016 measured EPS performance by reference to the three financial years to 29 December 2018 and average annual ROCE over the three-year performance period 2016 to 2018. 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 + 2% p.a. to RPI + 8% p.a. over three financial years.	RPI +2% (12.5% vesting)	RPI +8% (50% vesting)	RPI +4.83%	30.19%
ROCE (50%)	Average annual ROCE over the three-year performance period.	22% (12.5% vesting)	27% (50% vesting)	27.47%	50.00%
				Total vesting	**80.19%**

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

These awards will vest on 21 March 2019.

The table below details the impact of 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	42,560	£469,011	80.19%	34,129	£411,937	£35,835
Richard Hutton	18,910	£208,388	80.19%	15,164	£183,029	£15,922

Notes:
1 Based on a share price at grant of £11.02.
2 Based on a three-month average share price to 29 December 2018 of £12.07.

Performance Share Plan Awards granted during 2018 are as follows:

Executive	Type of award	Basis of award granted	Share price at date of grant (19 March 2018)	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	£11.96	52,800	£631,488	25%	Three financial years to 2 January 2021
Richard Hutton	nil cost option	95% of salary	£11.96	24,916	£297,995	25%	Three financial years to 2 January 2021

The target ranges* for this award are as follows:
– EPS average annual growth of five per cent to 11 per cent over three years from the 2017 financial year end.
– 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.

* Subject to any adjustment due to IFRS 16.

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.

Annual remuneration report continued

Outstanding Share Awards

The following table sets out details of the PSP 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 31 December 2017 number	Granted number	Exercised number	Lapsed number	At 29 December 2018 number	Exercise price	Date of grant	Market price of each share at date of grant	Date from which exercisable	Expiry date	Scheme
Roger Whiteside	44,103	–	44,103[1]	–	–	£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
	–	52,800	–	–	52,800	£nil	Mar 18	£11.960	Mar 21	Mar 28	PSP
	215	–	215[2]	–	–	£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
	–	124	–	–	124	£9.54	Apr 18		Jun 21	Nov 21	SAYE
	144,498	52,924	44,318	–	153,104						
Richard Hutton	19,595	–	19,595[3]	–	–	£nil	Mar 15	£10.350	Mar 18	Mar 25	PSP
	18,910	–	–	–	18,910	£nil	Mar 16	£11.020	Mar 19	Mar 26	PSP
	24,041	–	–	–	27,041	£nil	May 17	£10.720	May 20	May 27	PSP
	–	24,916	–	–	24,916	£nil	Mar 18	£11.960	Mar 21	Mar 28	PSP
	215	–	215[4]	–	–	£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
	–	124	–	–	124	£9.54	Apr 18		Jun 21	Nov 21	SAYE
	66,078	25,040	19,810	–	71,308						

Notes:
1 The market value on the date of exercise was £12.000 and the resultant gain on exercise was £529,236.
2 The market value on the date of exercise was £10.590 and the resultant gain on exercise was £518.
3 The market value on the date of exercise was £12.170 and the resultant gain on exercise was £238,471.
4 The market value on the date of exercise was £10.19 and the resultant gain on exercise was £432.

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 29 December 2018 was £12.63. The highest and lowest mid-market prices of ordinary shares during the financial year were £13.95 and £9.42, 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 31 December 2017 £	Accrued annual pension entitlement as at 29 December 2018 £	Increase in accrued pension entitlement for the year £	Increase in accrued pension entitlement for the year net of inflation of 1.24% £	Transfer value of increase in accrued pension entitlement for the year £
Richard Hutton	3/6/68	1/1/98	18,522	18,522	–	–	–

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 1.24 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 30 December 2017 £	Cash equivalent transfer value as at 29 December 2018 £	Increase in the cash equivalent transfer value since 31 December 2017 £
Richard Hutton	327,015	335,631	–

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.

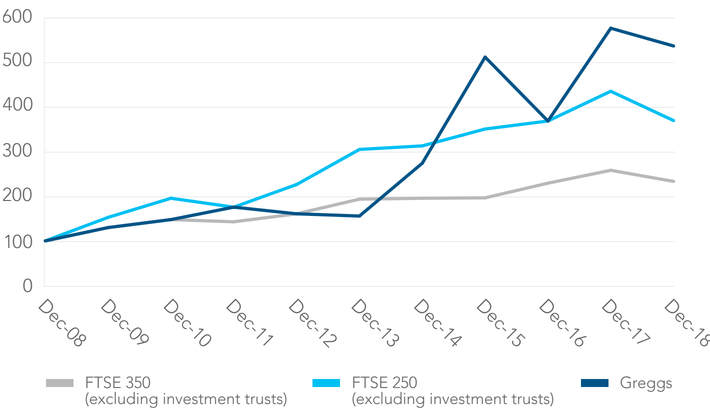
The main features of the defined benefit scheme are:

- 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 ten 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 nine years

The table below shows the total remuneration figure for the Chief Executive over the same nine-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	2018
Total remuneration	£767,397	£707,245	£635,030	£1,011,381	£1,238,248	£2,462,193	£2,135,526	£1,625,493	£1,503,441
Bonus (% of max potential)	56.6%	38.6%	18%	20%*	100%	93.7%	86.7%	64.3%	59.2%
PSP/options (% max potential)	n/a	0%	78.3%	n/a	n/a	100%	100%	100%	80.19%

* 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 29 December 2018 and their interests in shares are detailed below with the percentage holding calculated using the share price at that date:

Director	Beneficially owned at 29 December 2018	Beneficially owned at 30 December 2017	Outstanding PSP awards	Outstanding deferred bonus awards	Outstanding option awards	% shareholding guideline achieved at 29 December 2018
Roger Whiteside	222,666	195,472	152,663	–	–	512%
Richard Hutton	82,806	70,844	70,867	–	–	196%
Ian Durant	11,700	11,700	–	–	–	n/a
Allison Kirkby	1,600	1,600	–	–	–	n/a
Helena Ganczakowski	1,100	1,100	–	–	–	n/a
Peter McPhillips	1,000	1,000	–	–	–	n/a
Sandra Turner	1,000	1,000	–	–	–	n/a

There have been no changes since 29 December 2018 in the Directors' interests noted above.

Annual remuneration report continued

Exit payments or payments to past Directors (Audited)

There were no payments to past Directors in the 52 weeks ended 29 December 2018. No payments for compensation or loss of office were paid to, or receivable by, any Director.

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 fee that he earns. In 2018 this fee was £45,000.

Richard Hutton was appointed Non-Executive Director of The Lakes Distillery Company plc effective from 1 June 2018. He retains the fee that he earns. In 2018 this fee was £14,583.

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.

	2018 £m	2017 £m	% increase/ (decrease)
All colleague costs	369.6	358.2	3.2%
Dividends	33.1	32.2	2.8%
Retained profit (excluding exceptional items)	71.6	64.9	104%
Corporation tax paid	16.1	17.6	(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 2017 to 2018
Chief Executive (£)	
– salary	2.8%
– benefits	0.3%
– performance pay	(14.1%)
Average per colleague (£)	
– salary	1.6%
– benefits*	5.3%
– performance pay	(21.7%)

* The average employee benefits figure is based on tax year 2016/17 for 2017 and tax year 2017/18 for 2018.

At the AGM of the Company to be held on 21 May 2019, an ordinary resolution will be proposed to approve the annual report on remuneration.

This report was approved by the Board on 7 March 2019.

Signed on behalf of the Board

Sandra Turner
Chair of the Remuneration Committee
7 March 2019

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 includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

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

Roger Whiteside
Chief Executive
7 March 2019

Richard Hutton
Finance Director

1. Our opinion is unmodified

We have audited the accounts of Greggs plc ('the Company') for the 52 weeks ended 29 December 2018 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 on pages 85 to 90.

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 29 December 2018 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 first appointed as auditor by the Company before 1984. The period of total uninterrupted engagement is for more than the 35 financial years ended 29 December 2018. 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		**£4.0 million (2017: £4.0 million)** 4.5 per cent (2017: 4.9 per cent) of normalised PBT
Coverage		100 per cent (2017: 100 per cent) of Group profit before tax
Key audit matters		vs. 2017
Event-driven	**New:** The impact of uncertainties due to the UK exiting the European Union	▲
Recurring risks	**New:** Valuation of defined benefit pension obligation	▲

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

Key audit matters are those matters that, in our professional judgement, 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 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
The impact of uncertainties due to the UK exiting the European Union (Group and Parent Company) Refer to page 38 (principal risks), page 37 (viability statement), pages 51 to 56 (Audit Committee report), page 85 (accounting policy).	Unprecedented levels of uncertainty All audits assess and challenge the reasonableness of estimates, related disclosures and the appropriateness of the going concern basis of preparation of the accounts. All of these depend on assessments of the future economic environment and the Group's future prospects and performance. In addition, we are required to consider the other information presented in the annual report including the principal risks disclosure and the viability statement and to consider the Directors' statement 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. Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.	We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included: – Our Brexit knowledge; We considered the Directors' assessment of Brexit-related sources of risk for the Group's business and financial resources compared with our own understanding of the risks. We considered the Directors' plans to take action to mitigate the risks. – Sensitivity analysis; When addressing areas that depend on forecasts, for example, the key estimates and judgements described in the accounts, we compared the Directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty. – Assessing transparency; As well as assessing individual disclosures we considered all of the Brexit-related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks. Our results – We found the resulting estimates and related disclosures and disclosures in relation to going concern to be acceptable. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

2. Key audit matters: including our assessment of risks of material misstatement (continued)

	The risk	Our response
Valuation of defined benefit pension obligation (Group and Parent Company) (£113.5 million; 2017: £122.2 million) Refer to page 53 (Audit Committee report), pages 85 and 88 (accounting policy) and pages 103 and 104 (financial disclosures).	**Subjective valuation** Small changes in the assumptions and estimates used to value the Group's pension obligation (before deducting scheme assets) would have a significant effect on the Group's and Company's net pension deficit. Additionally, as disclosed in Note 4 to the accounts the Group's pension scheme is impacted by the High Court ruling on Guaranteed Minimum Pension ('GMP') equalisation resulting in a judgemental change to the measurement of the obligation. The effect of these matters is that, as part of our risk assessment, we determined that valuation of the defined benefit pension obligation has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the accounts as a whole. The accounts (Note 20) disclose the range/sensitivity estimated by the Group.	Our procedures included: – Benchmarking assumptions: Challenging, with the support of our own actuarial specialists, the key assumptions applied, being the discount rate, inflation rate, GMP equalisation, and mortality/life expectancy against externally derived data; and – Assessing transparency: Considering the adequacy of the Group's disclosures in respect of the sensitivity of the deficit to these assumptions. **Our results** – We found the valuation of the pension obligation to be acceptable (2017 result: acceptable).

We continue to perform procedures over retail property provisions and recoverability of property, plant and equipment. However, following: a number of obligations having been exited with a corresponding reduction in size of the provisions; and progression of the Group's supply site investment programme reducing judgement over property, plant and equipment recoverability, we have not assessed these as the most significant risks in our current year audit and, therefore, these are not separately identified in our report this year.

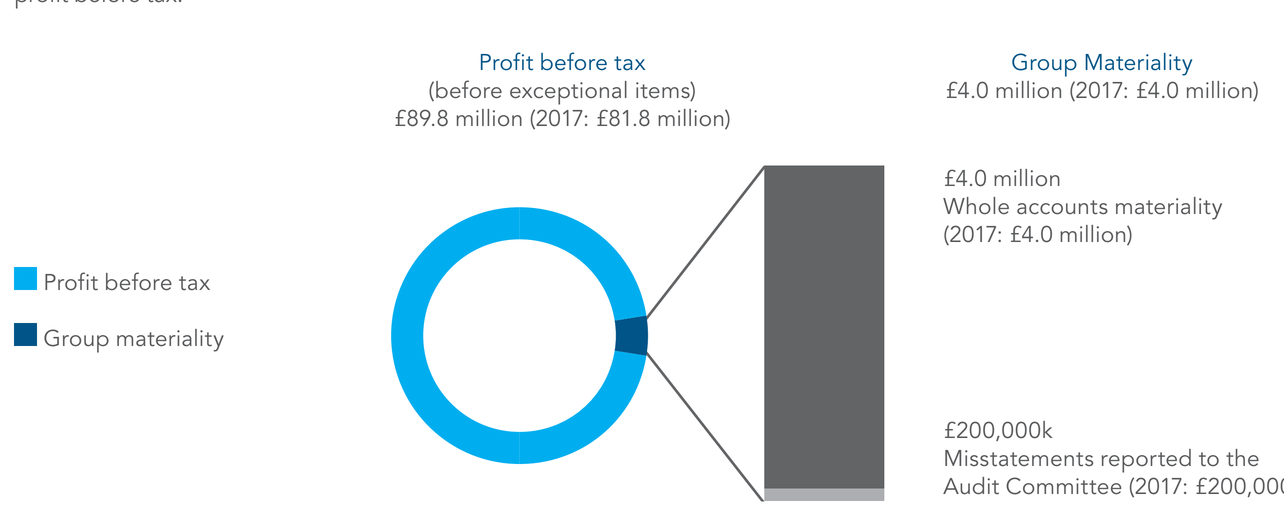
3. Our application of materiality and an overview of the scope of our audit

Materiality for the accounts as a whole was set at £4.0 million (2017: £4.0 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 4.5 per cent (2017: 4.9 per cent).

Materiality for the Parent Company accounts as a whole was set at £4.0 million (2017: £4.0 million) determined with reference to a benchmark of Company profit before tax normalised to exclude exceptional items of which it represents 4.5 per cent (2017: 4.9 per cent).

We agreed to report to the Audit Committee any corrected or uncorrected misstatements exceeding £200,000 (2017: £200,000), 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 (2017: 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.



4. We have nothing to report on going concern

The Directors have prepared the accounts on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the accounts ('the going concern period').

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group and the Company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Group's and Company's business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and Company's available financial resources over this period were:
- the impact of a brand-damaging food scare on customer demand;
- the impact of a significant business continuity issue affecting the Group's production facilities; and
- the impact of Brexit on the Group's supply chain.

As these were risks that could potentially cast significant doubt on the Group's and the Company's ability to continue as a going concern, we considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively and evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise. We also considered less predictable but realistic second order impacts, such as the impact of Brexit on the erosion of customer or supplier confidence, which could result in a rapid reduction of available financial resources.

Based on this work, we are required to report to you if:
- we have anything material to add or draw attention to in relation to the Directors' statement in the accounts 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 twelve months from the date of approval of the accounts; or
- the related statement under the Listing Rules set out on page 47 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

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 year 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 page 37 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; and
- 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.

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

Disclosures of principal risks and longer-term viability continued

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

Our work is limited to assessing these matters in the context of only the knowledge acquired during our accounts audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

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 eleven provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

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 73, 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 or other irregularities (see below), 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.

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

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the accounts from our general commercial and sector experience, through discussion with the Directors and other management (as required by auditing standards), and discussed with the Directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the accounts varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the accounts, including financial reporting legislation (including related companies legislation), distributable profits legislation, taxation legislation and defined benefit pension legislation, and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

7. Respective responsibilities (continued)

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the accounts, for instance, through the imposition of fines or litigation or limitations on the Group's licence to operate. We identified the following areas as those most likely to have such an effect: Food Safety and Health & Safety, recognising the nature of the Group's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and other management and inspection of regulatory and legal correspondence, if any. These limited procedures did not identify actual or suspected non-compliance.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the accounts, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the accounts, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, 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. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

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.

Nick Plumb
(Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Quayside House
110 Quayside
Newcastle Upon Tyne
NE1 3DX

7 March 2019

Consolidated income statement

for the 52 weeks ended 29 December 2018 (2017: 52 weeks ended 30 December 2017)

	Note	2018 Excluding exceptional items £'000	2018 Exceptional items (see Note 4) £'000	2018 Total £'000	2017 Excluding exceptional items £'000	2017 Exceptional items (see Note 4) £'000	2017 Total £'000
Revenue	1	**1,029,347**	**–**	**1,029,347**	960,005	–	960,005
Cost of sales		**(373,487)**	**(5,947)**	**(379,434)**	(348,098)	(10,060)	(358,158)
Gross profit		**655,860**	**(5,947)**	**649,913**	611,907	(10,060)	601,847
Distribution and selling costs		**(513,161)**	**416**	**(512,745)**	(476,215)	198	(476,017)
Administrative expenses		**(52,856)**	**(1,682)**	**(54,538)**	(53,517)	–	(53,517)
Operating profit		**89,843**	**(7,213)**	**82,630**	82,175	(9,862)	72,313
Finance expense	6	**(12)**	**–**	**(12)**	(368)	–	(368)
Profit before tax	3-6	**89,831**	**(7,213)**	**82,618**	81,807	(9,862)	71,945
Income tax	8	**(18,201)**	**1,322**	**(16,879)**	(16,923)	1,884	(15,039)
Profit for the financial year attributable to equity holders of the Parent		**71,630**	**(5,891)**	**65,739**	64,884	(7,978)	56,906
Basic earnings per share	9	**71.1p**	**(5.9p)**	**65.2p**	64.5p	(7.9p)	56.6p
Diluted earnings per share	9	**70.3p**	**(5.8p)**	**64.5p**	63.5p	(7.8p)	55.7p

Consolidated statement of comprehensive income

for the 52 weeks ended 29 December 2018 (2017: 52 weeks ended 30 December 2017)

	Note	2018 £'000	2017 £'000
Profit for the financial year		**65,739**	56,906
Other comprehensive income			
Items that will not be recycled to profit and loss:			
Re-measurements on defined benefit pension plans	20	**966**	15,962
Tax on re-measurements on defined benefit pension plans	8	**(164)**	(2,714)
Other comprehensive income for the financial year, net of income tax		**802**	13,248
Total comprehensive income for the financial year		**66,541**	70,154

Balance sheets

at 29 December 2018 (2017: 30 December 2017)

	Note	Group 2018 £'000	Group 2017 £'000	Parent Company 2018 £'000	Parent Company 2017 £'000
ASSETS					
Non-current assets					
Intangible assets	10	**16,886**	14,737	**16,886**	14,737
Property, plant and equipment	11	**330,472**	319,195	**331,065**	319,788
Investments	12	**–**	–	**4,987**	4,987
Deferred tax asset	13	**191**	782	**640**	1,231
		347,549	334,714	**353,578**	340,743
Current assets					
Inventories	14	**20,792**	18,688	**20,792**	18,688
Trade and other receivables	15	**31,581**	33,365	**31,581**	33,365
Cash and cash equivalents	16	**88,197**	54,503	**88,197**	54,503
		140,570	106,556	**140,570**	106,556
Total assets		**488,119**	441,270	**494,148**	447,299
LIABILITIES					
Current liabilities					
Trade and other payables	17	**(126,377)**	(107,126)	**(134,184)**	(114,933)
Current tax liability	18	**(10,059)**	(8,714)	**(10,059)**	(8,714)
Provisions	21	**(8,659)**	(12,090)	**(8,659)**	(12,090)
		(145,095)	(127,930)	**(152,902)**	(135,737)
Non-current liabilities					
Other payables	19	**(4,655)**	(5,127)	**(4,655)**	(5,127)
Defined benefit pension liability	20	**(8,416)**	(7,506)	**(8,416)**	(7,506)
Long-term provisions	21	**(735)**	(1,344)	**(735)**	(1,344)
		(13,806)	(13,977)	**(13,806)**	(13,977)
Total liabilities		**(158,901)**	(141,907)	**(166,708)**	(149,714)
Net assets		**329,218**	299,363	**327,440**	297,585
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		**313,246**	283,391	**311,468**	281,613
Total equity attributable to equity holders of the Parent		**329,218**	299,363	**327,440**	297,585

The accounts on pages 80 to 109 were approved by the Board of Directors on 7 March 2019 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 29 December 2018 (2017: 52 weeks ended 30 December 2017)

Group

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

52 weeks ended 29 December 2018

	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 31 December 2017		**2,023**	**13,533**	**416**	**283,391**	**299,363**
Total comprehensive income for the year						
Profit for the financial year		–	–	–	**65,739**	**65,739**
Other comprehensive income		–	–	–	**802**	**802**
Total comprehensive income for the year		–	–	–	**66,541**	**66,541**
Transactions with owners, recorded directly in equity						
Sale of own shares		–	–	–	**5,270**	**5,270**
Purchase of own shares		–	–	–	**(9,945)**	**(9,945)**
Share-based payment transactions	20	–	–	–	**2,018**	**2,018**
Dividends to equity holders	22	–	–	–	**(33,086)**	**(33,086)**
Tax items taken directly to reserves	8	–	–	–	**(943)**	**(943)**
Total transactions with owners		–	–	–	**(36,686)**	**(36,686)**
Balance at 29 December 2018		**2,023**	**13,533**	**416**	**313,246**	**329,218**

Parent Company

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

52 weeks ended 29 December 2018

	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 31 December 2017		2,023	13,533	416	281,613	297,585
Total comprehensive income for the year						
Profit for the financial year	7	–	–	–	65,739	65,739
Other comprehensive income		–	–	–	802	802
Total comprehensive income for the year		–	–	–	66,541	66,541
Transactions with owners, recorded directly in equity						
Sale of own shares		–	–	–	5,270	5,270
Purchase of own shares		–	–	–	(9,945)	(9,945)
Share-based payment transactions	20	–	–	–	2,018	2,018
Dividends to equity holders	22	–	–	–	(33,086)	(33,086)
Tax items taken directly to reserves	8	–	–	–	(943)	(943)
Total transactions with owners		–	–	–	(36,686)	(36,686)
Balance at 29 December 2018		2,023	13,533	416	311,468	327,440

Statements of cashflows

for the 52 weeks ended 29 December 2018 (2017: 52 weeks ended 30 December 2017)

	Note	Group		Parent Company	
		2018 £'000	2017 £'000	**2018 £'000**	2017 £'000
Operating activities					
Cash generated from operations (see below)		**152,222**	134,470	**152,222**	134,470
Income tax paid		**(16,050)**	(17,602)	**(16,050)**	(17,602)
Net cash inflow from operating activities		**136,172**	116,868	**136,172**	116,868
Investing activities					
Acquisition of property, plant and equipment		**(61,437)**	(68,646)	**(61,437)**	(68,646)
Acquisition of intangible assets		**(5,188)**	(3,918)	**(5,188)**	(3,918)
Proceeds from sale of property, plant and equipment		**1,726**	2,171	**1,726**	2,171
Interest received	6	**182**	249	**182**	249
Net cash outflow from investing activities		**(64,717)**	(70,144)	**(64,717)**	(70,144)
Financing activities					
Sale of own shares		**5,270**	5,358	**5,270**	5,358
Purchase of own shares		**(9,945)**	(11,352)	**(9,945)**	(11,352)
Dividends paid	22	**(33,086)**	(32,187)	**(33,086)**	(32,187)
Net cash outflow from financing activities		**(37,761)**	(38,181)	**(37,761)**	(38,181)
Net increase in cash and cash equivalents		**33,694**	8,543	**33,694**	8,543
Cash and cash equivalents at the start of the year	16	**54,503**	45,960	**54,503**	45,960
Cash and cash equivalents at the end of the year	16	**88,197**	54,503	**88,197**	54,503

Cash flow statement – cash generated from operations

	Note	**2018 £'000**	2017 £'000	**2018 £'000**	2017 £'000
Profit for the financial year		**65,739**	56,906	**65,739**	56,906
Amortisation	10	**3,039**	3,435	**3,039**	3,435
Depreciation	11	**52,867**	50,044	**52,867**	50,044
Impairment/(reversal of impairment)	11	**367**	(415)	**367**	(415)
Loss on sale of property, plant and equipment		**1,602**	2,719	**1,602**	2,719
Release of government grants		**(472)**	(472)	**(472)**	(472)
Share-based payment expenses	20	**2,018**	1,835	**2,018**	1,835
Finance expense	6	**12**	368	**12**	368
Income tax expense	8	**16,879**	15,039	**16,879**	15,039
Increase in inventories		**(2,104)**	(2,754)	**(2,104)**	(2,754)
Decrease/(increase) in receivables		**1,784**	(2,652)	**1,784**	(2,652)
Increase in payables		**12,849**	4,497	**12,849**	4,497
(Decrease)/increase in provisions		**(4,040)**	5,920	**(4,040)**	5,920
Increase in pension liability	20	**1,682**	–	**1,682**	–
Cash from operating activities		**152,222**	134,470	**152,222**	134,470

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 7 March 2019.

(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 1 to 39. The financial position of the Group, its cash flows and liquidity position are described in the financial review on pages 26 to 29. 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. From 31 December 2017 the following standards, amendments and interpretations were adopted by the Group:

- IFRS 9 Financial Instruments; and
- IFRS 15 Revenue from Contracts with Customers.

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

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 35 to 39 of the strategic report. In addition the financial review on pages 26 to 29 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 include the decision to invest in and reshape the Company's supply chain, with a multi-year, known budget project, in order to support future growth. Judgement is required in ensuring that only items that relate directly to this activity are separately presented. They also include the change in respect of guaranteed minimum pension equalisation. Further details of items treated as exceptional are given in Note 4.

Significant accounting policies continued

(b) Basis of preparation continued

Key estimates and judgements continued

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, with significant estimation uncertainty, including the discount rate, inflation rate, mortality rates and commutation and guaranteed minimum pensions. Differences arising from actual experience or future changes in assumptions will be reflected in future years. The key assumptions, sensitivities and carrying amounts for 2018 are given in Notes 4 and 20.

(c) Basis of consolidation

The consolidated accounts include the results of Greggs plc and its subsidiary undertakings for the 52 weeks ended 29 December 2018. The comparative period is the 52 weeks ended 30 December 2017.

(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 are five to seven 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.

(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.

Significant accounting policies continued

(o) Employee benefits

(i) Short-term employee benefits

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

(ii) Defined contribution plans

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

(iii) Defined benefit plans

The Company's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets (at bid price) 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 delivered 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.

The nature, timing and uncertainty of revenues arising from the above transaction types do not differ significantly from each other.

(r) Government grants

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

(s) Operating lease payments

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

(t) Finance income and expense

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

(u) Income tax

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

Current tax is the expected tax payable on the taxable 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.

Significant accounting policies continued

(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 16 Leases (effective date 1 January 2019).

The Group is adopting IFRS 16 Leases for the 52 weeks ending 28 December 2019 with a transition date of 30 December 2018. The standard replaces IAS 17 and establishes principles for the recognition, measurement, presentation and disclosure of leases. IFRS 16 eliminates the classification of leases as either operating leases or finance leases and introduces a single lessee accounting model. An asset (the right to use the leased item) and a financial liability to pay rentals are recognised with the only exceptions being for short-term or low-value leases. Depreciation of the right-of-use assets and interest on the financial liability are recognised separately in the income statement.

The application of IFRS 16 will have a material impact on the Group's accounts for the 52 weeks ending 28 December 2019. The Group has applied the modified retrospective approach to transition as at 30 December 2018 and comparative amounts for the prior year will not be restated on first adoption. The right-of-use assets have been measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

As at 29 December 2018 the Group had non-cancellable operating lease commitments of £164.7 million (see Note 23) the majority of which relate to property leases for shops.

For these lease commitments on transition the Group has recognised right-of-use assets and lease liabilities in the order of £270 million, after adjustments for prepayments and accrued lease liabilities recognised as at 29 December 2018. Net current assets are approximately £50 million lower due to the presentation of a portion of the liability as a current liability.

The Group expects that net profit before tax will decrease by approximately £4.2 million for the 52 weeks ending 28 December 2019 as a result of adopting the new rules. Operating profit is anticipated to increase by c.£2.6 million and finance expenses to increase by c.£6.8 million due to the depreciation and interest elements being charged separately.

Overall there will be no impact on cashflow though operating cashflows are expected to increase and financing cashflows decrease as repayment of the principal portion of the lease liabilities will be classified as cashflows from financing activities.

Key judgements regarding interest rates and lease terms have been applied in deriving the anticipated impact of the adoption of the new standard. One of these judgements relates to the treatment of properties where the current lease term has expired but the Company remains in negotiation with the landlord for potential renewal. The Company's interpretation of IFRS 16 is such that, where the intention is to renew the lease, and renewal is reasonably certain, it will be accounted as if it has been renewed. This is a material judgement and the Company has developed a number of objective tests to ensure that leases are treated consistently. At the end of 2018 there were c.260 property leases in this situation that it is intended will be capitalised for this reason. These properties account for £40 million of the assets and liabilities referred to above and £0.4 million of the expected decrease in profit.

There are no other standards that are not yet effective that would be expected to have a material impact of the income statement or balance sheet of the Group.

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, and franchisees. These are included within the 'other' column below.

Geographical areas – all results arise in the UK.

The Board regularly reviews the revenues and trading profit of each segment separately but receives information on overheads, assets and liabilities on an aggregated basis consistent with the Group accounts. Details of the revenue and trading profit are shown below:

	Retail company-managed shops 2018 £'000	Other 2018 £'000	Total 2018 £'000	Retail company-managed shops 2017 £'000	Other 2017 £'000	Total 2017 £'000
Revenue	**949,250**	**80,097**	**1,029,347**	891,778	68,227	960,005
Trading profit*	**151,211**	**14,355**	**165,566**	144,014	12,084	156,098
Overheads including profit share			**(75,723)**			(73,923)
Operating profit before exceptional items			**89,843**			82,175
Finance expense			**(12)**			(368)
Profit before tax (excluding exceptional items)			**89,831**			81,807
Exceptional items (see Note 4)			**(7,213)**			(9,862)
Profit before tax			**82,618**			71,945

* Trading profit is defined as gross profit less supply chain costs and retails costs (including property costs) and before central overheads.

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 37. 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 £12,000 (2017: £368,000).

Equity price risk

The Group has no significant 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.

2. Financial risk management continued

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

A financial asset is measured at amortised cost if it meets both of the following conditions:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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. These financial assets all meet the conditions to be recognised at amortised cost.

Other than trade and other payables, the Group had no financial liabilities within the scope of IFRS 9 as at 29 December 2018 (2017: £nil).

Fair values

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

	2018 £'000	2017 £'000
Amortisation of intangible assets	**3,039**	3,435
Depreciation on owned property, plant and equipment	**52,867**	50,044
Impairment/(reversal of impairment) of owned property, plant and equipment	**367**	(415)
Loss on disposal of fixed assets	**1,602**	2,719
Release of government grants	**(472)**	(472)
Payments under operating leases – property rents	**54,265**	50,933
Research and development expenditure	**325**	325
Auditor's remuneration		
Audit of these accounts	**149**	154
Audit of pension schemes' accounts	**8**	8
All other services	**17**	9

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

		2018 £'000	2017 £'000
Cost of sales			
Supply chain restructuring	– redundancy	**(174)**	7,458
	– gain on property disposal	**–**	(403)
	– depreciation and asset write-off	**709**	1,245
	– transfer of operations	**4,931**	1,302
	– property-related	**481**	458
		5,947	10,060
Distribution and selling			
Prior year items	– property-related	**(416)**	(198)
Administrative expenses			
Pension scheme	– guaranteed minimum pension equalisation	**1,682**	–
Total exceptional items		**7,213**	9,862

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 2018 the costs related to accelerated depreciation and the expenses incurred as a result of transferring manufacturing processes between sites, including additional running costs. In 2017 the costs related 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 arose as a result of this consolidation.

Prior year item
This relates to the movement on costs treated as exceptional in prior years and arises from the settlement of various property transactions.

Guaranteed minimum pension equalisation
The charge arises from the recognition of a past service cost in respect of the equalisation of guaranteed minimum pension (GMP) benefits.

On 26 October 2018, the High Court handed down a judgement involving Lloyds Banking Group defined benefit pension schemes. The judgement ruled that the schemes should equalise benefits for men and women in relation to GMP benefits. The judgement has implications for many defined benefit schemes including that operated by the Company. We have worked with our actuarial advisors to understand the implications of the judgement for the Greggs scheme and the £1,682,000 pre-tax exceptional expense reflects our best estimate of the effect on our reported pension liabilities.

The change in pension liabilities recognised in relation to GMP equalisation involves estimation uncertainty. It is expected that there will be follow-on court hearings to further clarify the application of GMP equalisation in practice. Further, it is not yet known whether Lloyds Banking Group will appeal the High Court judgement. These accounts reflect the best estimate of the impact on pension liabilities; however that estimate reflects a number of assumptions. As the outcome of future court hearings cannot be reliably predicted, it is not practical to quantify the extent of the estimation uncertainty but the best estimate reflects the information currently available. The Directors will continue to monitor any further clarifications or court hearings arising from the Lloyds case and consider the impact on pension liabilities accordingly.

The Directors have made the judgement that the estimated effect of GMP equalisation is a past service cost that should be reflected through the income statement and that any subsequent change in the estimate should be recognised in other comprehensive income. This judgement is based on the fact that the reported pension liabilities as at 30 December 2017 did not include any amount in respect of GMP equalisation.

5. Personnel expenses

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

	2018 Number	2017 Number
Management	**710**	711
Administration	**454**	461
Production	**3,023**	2,988
Shop	**18,283**	17,389
	22,470	21,549

The aggregate costs of these persons were as follows:

	Note	2018 £'000	2017 £'000
Wages and salaries		**328,264**	321,872
Compulsory social security contributions		**21,199**	22,535
Pension costs – defined benefit plan	20	**1,682**	–
Pension costs – defined contribution plans	20	**15,096**	11,258
Equity-settled transactions (including employer's NI costs)	20	**2,018**	2,575
		368,259	358,240

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:

	2018 £'000	2017 £'000
Cost of sales	**2,612**	2,395
Distribution and selling costs	**6,228**	5,710
Administrative expenses	**1,205**	1,106
	10,045	9,211

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:

	2018 £'000	2017 £'000
Salaries and fees	**2,782**	2,956
Taxable benefits	**130**	126
Annual bonus (including profit share)	**1,291**	1,350
Post-retirement benefits	**341**	352
Share-based payments	**1,168**	933
	5,712	5,717

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

	2018 £'000	2017 £'000
Aggregate Directors' remuneration	**1,631**	1,820
Aggregate amount of gains on exercise of share options	**769**	1,374
	2,400	3,194

The number of Directors in the defined contribution pension scheme and in the defined benefit pension scheme during the year was one (2017: two).

6. Finance expense

	Note	2018 £'000	2017 £'000
Interest income on cash balances		**171**	46
Foreign exchange gain		**11**	203
Net interest related to defined benefit obligation	20	**(194)**	(617)
		(12)	(368)

7. Profit attributable to Greggs plc

Of the Group profit for the year, £65,739,000 (2017: £56,906,000) 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 2018 £'000	Exceptional items 2018 £'000	Total 2018 £'000	Excluding exceptional items 2017 £'000	Exceptional items 2017 £'000	Total 2017 £'000
Current tax						
Current year	**18,954**	**(916)**	**18,038**	18,902	(1,756)	17,146
Adjustment for prior years	**(643)**	**–**	**(643)**	(1,256)	–	(1,256)
	18,311	**(916)**	**17,395**	17,646	(1,756)	15,890
Deferred tax						
Origination and reversal of temporary differences	**(237)**	**(406)**	**(643)**	(457)	(128)	(585)
Adjustment for prior years	**127**	**–**	**127**	(266)	–	(266)
	(110)	**(406)**	**(516)**	(723)	(128)	(851)
Total income tax expense in income statement	**18,201**	**(1,322)**	**16,879**	16,923	(1,884)	15,039

Reconciliation of effective tax rate

The tables below explain the differences between the expected tax expense calculated at the UK statutory rate of 19 per cent (2017: 19.25 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

	2018	2018 £'000	2017	2017 £'000
Profit before tax		**82,618**		71,945
Income tax using the domestic corporation tax rate	**19.00%**	**15,697**	19.25%	13,849
Expenses not deductible for tax purposes	**0.26%**	**216**	1.20%	882
Non-tax-deductible depreciation	**1.87%**	**1,552**	2.00%	1,425
(Profit)/loss on disposal of non-tax-deductible assets	**(0.08%)**	**(70)**	0.45%	328
Impact of reduction in deferred tax rate	**–**	**–**	0.10%	77
Adjustment for prior years	**(0.62%)**	**(516)**	(2.10%)	(1,522)
Total income tax expense in income statement	**20.43%**	**16,879**	20.90%	15,039

Underlying (excluding exceptional items)

	2018	2018 £'000	2017	2017 £'000
Profit before tax		**89,831**		81,807
Income tax using the domestic corporation tax rate	**19.00%**	**17,068**	19.25%	15,748
Expenses not deductible for tax purposes	**0.18%**	**167**	1.10%	882
Non-tax-deductible depreciation	**1.73%**	**1,552**	1.75%	1,425
(Profit)/loss on disposal of non-tax-deductible assets	**(0.08%)**	**(70)**	0.40%	328
Impact of reduction in deferred tax rate	**–**	**–**	0.10%	62
Adjustment for prior years	**(0.57%)**	**(516)**	(1.90%)	(1,522)
Total income tax expense in income statement	**20.26%**	**18,201**	20.70%	16,923

8. Income tax expense continued

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

	2018 Current tax £'000	2018 Deferred tax £'000	2018 Total £'000	2017 Total £'000
Debit/(credit):				
Relating to equity-settled transactions	–	**943**	**943**	(895)
Relating to defined benefit plans – re-measurement gains	–	**164**	**164**	2,714
	–	**1,107**	**1,107**	1,819

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 29 December 2018 is calculated by dividing profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the 52 weeks ended 29 December 2018 as calculated below.

Diluted earnings per share

Diluted earnings per share for the 52 weeks ended 29 December 2018 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 29 December 2018 as calculated below.

Profit attributable to ordinary shareholders

	2018 Excluding exceptional items £'000	2018 Exceptional items £'000	2018 Total £'000	2017 Excluding exceptional items £'000	2017 Exceptional items £'000	2017 Total £'000
Profit for the financial year attributable to equity holders of the Parent	**71,630**	**(5,891)**	**65,739**	64,884	(7,978)	56,906
Basic earnings per share	**71.1p**	**(5.9p)**	**65.2p**	64.5p	(7.9p)	56.6p
Diluted earnings per share	**70.3p**	**(5.8p)**	**64.5p**	63.5p	(7.8p)	55.7p

Weighted average number of ordinary shares

	2018 Number	2017 Number
Issued ordinary shares at start of year	**101,155,901**	101,155,901
Effect of own shares held	**(462,731)**	(510,293)
Weighted average number of ordinary shares during the year	**100,693,170**	100,645,608
Effect of share options on issue	**1,161,042**	1,489,067
Weighted average number of ordinary shares (diluted) during the year	**101,854,212**	102,134,675

10. Intangible assets

Group and Parent Company

	Software £'000	Assets under development £'000	Total £'000
Cost			
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
Balance at 31 December 2017	**20,745**	**784**	**21,529**
Additions	**1,490**	**3,698**	**5,188**
Transfers	**1,630**	**(1,630)**	**–**
Balance at 29 December 2018	**23,865**	**2,852**	**26,717**
Amortisation			
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
Balance at 31 December 2017	**6,792**	**–**	**6,792**
Amortisation charge for the year	**3,039**	**–**	**3,039**
Balance at 29 December 2018	**9,831**	**–**	**9,831**
Carrying amounts			
At 1 January 2017	13,104	1,150	14,254
At 30 December 2017	13,953	784	14,737
At 31 December 2017	**13,953**	**784**	**14,737**
At 29 December 2018	**14,034**	**2,852**	**16,886**

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 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
Balance at 31 December 2017	**147,210**	**137,131**	**306,721**	**8,037**	**599,099**
Additions	**6,108**	**26,600**	**33,141**	**1,990**	**67,839**
Disposals	**(1,001)**	**(16,113)**	**(18,710)**	**–**	**(35,824)**
Transfers	**763**	**7,251**	**–**	**(8,014)**	**–**
Balance at 29 December 2018	**153,080**	**154,869**	**321,152**	**2,013**	**631,114**
Depreciation					
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
Balance at 31 December 2017	**40,018**	**93,474**	**146,412**	**–**	**279,904**
Depreciation charge for the year	**4,278**	**11,821**	**36,768**	**–**	**52,867**
Impairment charge for the year	**–**	**140**	**403**	**–**	**543**
Impairment release for the year	**–**	**–**	**(176)**	**–**	**(176)**
Disposals	**(246)**	**(15,563)**	**(16,687)**	**–**	**(32,496)**
Balance at 29 December 2018	**44,050**	**89,872**	**166,720**	**–**	**300,642**
Carrying amounts					
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
At 31 December 2017	**107,192**	**43,657**	**160,309**	**8,037**	**319,195**
At 29 December 2018	**109,030**	**64,997**	**154,432**	**2,013**	**330,472**

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, which management consider a reasonable approximation of a forecast for future cashflows, 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, (given that the risks are not significantly different as a result of geographical locations) 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.

During 2018, the Company exchanged contracts for the disposal of the vacant Twickenham site. The disposal is conditional on a number of factors, including the applications for and successful grant of planning permission. The timing of the resolution of these factors is uncertain 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.

Parent Company

	Land and buildings £'000	Plant and equipment £'000	Fixtures and fittings £'000	Assets under construction £'000	Total £'000
Cost					
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
Balance at 31 December 2017	**147,720**	**137,664**	**307,209**	**8,037**	**600,630**
Additions	**6,108**	**26,600**	**33,141**	**1,990**	**67,839**
Disposals	**(1,001)**	**(16,113)**	**(18,710)**	**–**	**(35,824)**
Transfers	**763**	**7,251**	**–**	**(8,014)**	**–**
Balance at 29 December 2018	**153,590**	**155,402**	**321,640**	**2,013**	**632,645**
Depreciation					
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
Balance at 31 December 2017	**40,295**	**93,744**	**146,803**	**–**	**280,842**
Depreciation charge for the year	**4,278**	**11,821**	**36,768**	**–**	**52,867**
Impairment charge for the year	**–**	**140**	**403**	**–**	**543**
Impairment release for the year	**–**	**–**	**(176)**	**–**	**(176)**
Disposals	**(246)**	**(15,563)**	**(16,687)**	**–**	**(32,496)**
Balance at 29 December 2018	**44,327**	**90,142**	**167,111**	**–**	**301,580**
Carrying amounts					
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
At 31 December 2017	**107,425**	**43,920**	**160,406**	**8,037**	**319,788**
At 29 December 2018	**109,263**	**65,260**	**154,529**	**2,013**	**331,065**

Land and buildings

The carrying amount of land and buildings comprises:

	Group		Parent Company	
	2018 £'000	2017 £'000	**2018 £'000**	2017 £'000
Freehold property	**107,646**	105,576	**107,879**	105,809
Short leasehold property	**1,384**	1,616	**1,384**	1,616
	109,030	107,192	**109,263**	107,425

12. Investments

Non-current investments

Parent Company

	Shares in subsidiary undertakings £'000
Cost	
Balance at 1 January 2017, 30 December 2017 and 29 December 2018	**5,828**
Impairment	
Balance at 1 January 2017, 30 December 2017 and 29 December 2018	**841**
Carrying amount	
Balance at 1 January 2017, 30 December 2017, 31 December 2017 and 29 December 2018	**4,987**

The undertakings in which the Company's interest at the yearend 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	
	2018 £'000	2017 £'000	**2018 £'000**	2017 £'000	**2018 £'000**	2017 £'000
Property, plant and equipment	**–**	–	**(3,237)**	(3,837)	**(3,237)**	(3,837)
Employee benefits	**3,184**	4,044	**–**	–	**3,184**	4,044
Short-term temporary differences	**244**	575	**–**	–	**244**	575
Tax assets/(liabilities)	**3,428**	4,619	**(3,237)**	(3,837)	**191**	782

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

The movements in temporary differences during the year ended 29 December 2018 were as follows:

	Balance at 31 December 2017 £'000	Recognised in income £'000	Recognised in equity £'000	**Balance at 29 December 2018 £'000**
Property, plant and equipment	(3,837)	600	–	**(3,237)**
Employee benefits	4,044	247	(1,107)	**3,184**
Short-term temporary differences	575	(331)	–	**244**
	782	516	(1,107)	**191**

Parent Company

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2018 £'000	2017 £'000	**2018 £'000**	2017 £'000	**2018 £'000**	2017 £'000
Property, plant and equipment	**–**	–	**(2,788)**	(3,388)	**(2,788)**	(3,388)
Employee benefits	**3,184**	4,044	**–**	–	**3,184**	4,044
Short-term temporary differences	**244**	575	**–**	–	**244**	575
Tax assets/(liabilities)	**3,428**	4,619	**(2,788)**	(3,388)	**640**	1,231

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

The movements in temporary differences during the year ended 29 December 2018 were as follows:

	Balance at 31 December 2017 £'000	Recognised in income £'000	Recognised in equity £'000	**Balance at 29 December 2018 £'000**
Property, plant and equipment	(3,388)	600	–	**(2,788)**
Employee benefits	4,044	247	(1,107)	**3,184**
Short-term temporary differences	575	(331)	–	**244**
	1,231	516	(1,107)	**640**

14. Inventories

	Group and Parent Company	
	2018 £'000	2017 £'000
Raw materials and consumables	**15,218**	13,330
Work in progress	**5,574**	5,358
	20,792	18,688

15. Trade and other receivables

	Group and Parent Company 2018 £'000	Group and Parent Company 2017 £'000
Trade receivables	**15,304**	11,833
Other receivables	**2,946**	4,921
Prepayments	**13,331**	16,611
	31,581	33,365

At 29 December 2018 trade receivables are shown net of an allowance for bad debts of £29,000 (2017: £24,000) 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 2018 £'000	Group and Parent Company 2017 £'000
Not past due date	**11,354**	9,897
Past due 1-30 days	**3,950**	1,923
Past due 31-90 days	**–**	11
Past due over 90 days	**–**	2
	15,304	11,833

The Group believes that any 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 significant impairment allowance is necessary in respect of trade receivables not past due.

16. Cash and cash equivalents

	Group and Parent Company 2018 £'000	Group and Parent Company 2017 £'000
Cash and cash equivalents	**88,197**	54,503

17. Trade and other payables

	Group		Parent Company	
	2018 £'000	2017 £'000	**2018 £'000**	2017 £'000
Trade payables	**55,777**	48,207	**55,777**	48,207
Amounts owed to subsidiary undertakings	**–**	–	**7,807**	7,807
Other taxes and social security	**8,141**	7,378	**8,141**	7,378
Other payables	**35,061**	33,325	**35,061**	33,325
Accruals and deferred income	**26,930**	17,748	**26,930**	17,748
Deferred Government grants	**468**	468	**468**	468
	126,377	107,126	**134,184**	114,933

18. Current tax liability

The current tax liability of £10,059,000 in the Group and the Parent Company (2017: Group and Parent Company £8,714,000) 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 2018 £'000	Group and Parent Company 2017 £'000
Deferred Government grants	**4,655**	5,127

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 18 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	
	2018 £'000	2017 £'000
Defined benefit obligation	**(113,548)**	(122,244)
Fair value of plan assets	**105,132**	114,738
Net defined benefit liability	**(8,416)**	(7,506)

Liability for defined benefit obligations

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

	Group and Parent Company	
	2018 £'000	2017 £'000
Opening defined benefit obligation	**122,244**	131,373
Past service costs (see Note 4)	**1,682**	–
Interest cost	**3,012**	3,483
Re-measurement (gains)/losses:		
– changes in mortality assumptions	**(605)**	(4,879)
– changes in commutation assumptions	**–**	(7,010)
– changes in financial assumptions	**(5,353)**	3,770
– experience	**(4,119)**	953
Benefits paid	**(3,313)**	(5,446)
	113,548	122,244

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

	Group and Parent Company	
	2018 £'000	2017 £'000
Opening fair value of plan assets	**114,738**	108,522
Net interest on plan assets	**2,818**	2,866
Re-measurement (losses)/gains	**(9,111)**	8,796
Benefits paid	**(3,313)**	(5,446)
Closing fair value of plan assets	**105,132**	114,738

20. Employee benefits continued

Defined benefit plan continued

Liability for defined benefit obligations continued

The costs charged in the income statement are as follows:

	Group	
	2018 £'000	2017 £'000
Interest expense on net defined benefit liability	**194**	617

The amounts recognised in other comprehensive income are as follows:

	Group	
	2018 £'000	2017 £'000
Re-measurement gains on defined benefit pension plans	**966**	15,962

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 £23,082,000 (2017: net losses of £24,048,000).

The fair value of the plan assets is as follows:

	Group and Parent Company	
	2018 £'000	2017 £'000
Equities – UK	**35,126**	40,494
– overseas	**38,914**	45,329
Bonds – corporate	**13,342**	16,230
– government	**12,887**	3,564
Absolute return funds	**3,143**	5,486
Cash and cash equivalents/other	**1,720**	3,635
	105,132	114,738

Principal actuarial assumptions (expressed as weighted averages):

	Group and Parent Company	
	2018	2017
Discount rate	**2.80%**	2.50%
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 22.0 years (2017: 22.1 years) if they are male and 23.9 years (2017: 24.0 years) if they are female. Members currently aged 45 are expected to live for a further 23.4 years (2017: 23.9 years) from age 65 if they are male and for a further 25.4 years (2017: 25.5 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	£2.0m decrease
Inflation	0.1% decrease	£1.2m decrease
Mortality rates	1 year decrease	£4.5m decrease

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 £15,096,000 (2017: £11,258,000) 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
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
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

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 9	March 2018	Senior executives	£nil	190,943	Three years' service, EPS average annual growth of 5-11% over those three years and average annual ROCE of 25-29% over those three years	10 years
Executive Share Option Scheme 21	March 2018	Senior employees	1197p	228,923	Three years' service and EPS growth of 5-11% on average over those three years	10 years
Savings Related Share Option Scheme 19	April 2018	All employees	954p	335,482	Three years' service	3.5 years

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

	2018		2017	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
Outstanding at the beginning of the year	**649p**	**2,893,489**	548p	3,521,408
Lapsed during the year	**889p**	**(109,157)**	848p	(165,172)
Exercised during the year	**605p**	**(795,620)**	374p	(1,318,930)
Granted during the year	**786p**	**755,348**	677p	856,183
Outstanding at the end of the year	**690p**	**2,744,060**	649p	2,893,489
Exercisable at the end of the year	**548p**	**598,881**	419p	685,933

The options outstanding at 29 December 2018 have an exercise price in the range of £nil to £11.97 and have a weighted average contractual life of 5.5 years. The options exercised during the year had a weighted average market value of £11.80 (2017: £11.19).

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:

	2018			2017		
	Performance Share Plan 9 March 2018	Executive Share Option Scheme 21 March 2018	Savings Related Share Option Scheme 19 April 2018	Performance Share Plan 8 May 2017	Executive Share Option Scheme 20 April 2017	Savings Related Share Option Scheme 18 April 2017
Fair value at grant date	**1103p**	**183p**	**282p**	981p	165p	238p
Share price	**1196p**	**1197p**	**1192p**	1072p	1033p	807p
Exercise price	**nil**	**1197p**	**954p**	nil	1033p	1009p
Expected volatility	**27.39%**	**27.39%**	**27.29%**	30.25%	30.25%	30.09%
Option life	**3 years**	**3 years**	**3 years**	3 years	3 years	3 years
Expected dividend yield	**2.70%**	**2.70%**	**2.70%**	2.95%	3.00%	3.07%
Risk-free rate	**0.87%**	**0.87%**	**0.94%**	0.17%	0.17%	0.14%

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:

	2018 £'000	2017 £'000
Share options granted in 2014	**–**	178
Share options granted in 2015	**214**	748
Share options granted in 2016	**774**	482
Share options granted in 2017	**586**	427
Share options granted in 2018	**444**	–
Total expense recognised as employee costs	**2,018**	1,835

21. Provisions

	Group and Parent Company									
	2018 Dilapidations £'000	**2018 Onerous leases £'000**	**2018 Redundancy £'000**	**2018 Other £'000**	**2018 Total £'000**	2017 Dilapidations £'000	2017 Onerous leases £'000	2017 Redundancy £'000	2017 Other £'000	2017 Total £'000
Balance at start of year	**2,956**	**1,321**	**7,204**	**1,953**	**13,434**	3,243	1,819	1,438	1,014	7,514
Additional provision in the year:										
– ordinary	**1,028**	**6**	**–**	**1,701**	**2,735**	1,954	206	–	1,513	3,673
– exceptional	**–**	**–**	**–**	**–**	**–**	–	10	7,349	–	7,359
Utilised in year:										
– ordinary	**(430)**	**(99)**	**–**	**(405)**	**(934)**	(940)	(352)	–	(574)	(1,866)
– exceptional	**(75)**	**–**	**(3,546)**	**–**	**(3,621)**	(95)	(81)	(1,583)	–	(1,759)
Provisions reversed during the year:										
– ordinary	**(667)**	**(191)**	**–**	**(772)**	**(1,630)**	(1,152)	(175)	–	–	(1,327)
– exceptional	**(14)**	**(402)**	**(174)**	**–**	**(590)**	(54)	(106)	–	–	(160)
Balance at end of year	**2,798**	**635**	**3,484**	**2,477**	**9,394**	2,956	1,321	7,204	1,953	13,434
Included in current liabilities	**2,551**	**294**	**3,484**	**2,330**	**8,659**	2,689	379	7,204	1,818	12,090
Included in non-current liabilities	**247**	**341**	**–**	**147**	**735**	267	942	–	135	1,344
	2,798	**635**	**3,484**	**2,477**	**9,394**	2,956	1,321	7,204	1,953	13,434

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

	2018 Dilapidations	2018 Onerous leases	2018 Redundancy	2018 Other	2018 Total	2017 Dilapidations	2017 Onerous leases	2017 Redundancy	2017 Other	2017 Total
Ordinary	**2,551**	**428**	**–**	**2,477**	**5,456**	2,619	713	–	1,953	5,285
Exceptional	**247**	**207**	**3,484**	**–**	**3,938**	337	608	7,204	–	8,149
	2,798	**635**	**3,484**	**2,477**	**9,394**	2,956	1,321	7,204	1,953	13,434

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 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 £207,000 (2017: £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	
	2018 Number	2017 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 £33,001,000 (2017: £28,327,000) 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 560,866 shares (2017: 504,215 shares) with a market value at 29 December 2018 of £7,084,000 (2017: £7,054,000) which have not vested unconditionally in employees. During the year the Trust purchased 889,189 (2017: 986,150) shares for an aggregate consideration of £9,945,000 (2017: £11,352,000) and sold 832,538 (2017: 1,360,170) shares for an aggregate consideration of £5,270,000 (2017: £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:

	2018 Per share pence	2017 Per share pence
2016 final dividend	**–**	21.5p
2017 interim dividend	**–**	10.3p
2017 final dividend	**22.0p**	–
2018 interim dividend	**10.7p**	–
	32.7p	31.8p

The proposed final dividend in respect of 2018 amounts to 25 pence per share (£25,161,000). This proposed dividend is subject to approval at the AGM and has not been included as a liability in these accounts.

	2018 £'000	2017 £'000
2016 final dividend	**–**	21,768
2017 interim dividend	**–**	10,419
2017 final dividend	**22,262**	–
2018 interim dividend	**10,824**	–
	33,086	32,187

23. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2018 £'000 Property	**2018 £'000 Equipment**	**2018 £'000 Total**	2017 £'000 Property	2017 £'000 Equipment	2017 £'000 Total
Less than one year	**44,034**	**1,893**	**45,927**	39,751	2,005	41,756
Between one and five years	**97,187**	**2,040**	**99,227**	90,070	2,949	93,019
More than five years	**19,592**	**–**	**19,592**	15,866	–	15,866
	160,813	**3,933**	**164,746**	145,687	4,954	150,641

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 29 December 2018, the Group entered into contracts to purchase property, plant and equipment and intangible assets for £11,551,000 (2017: £10,098,000). 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), Directors and executive officers and pension schemes.

Trading transactions with subsidiaries – Group

There have been no transactions between the Company and its subsidiaries or associates during the year (2017: £nil).

Trading transactions with subsidiaries – Parent Company

	Amounts owed to related parties		Amounts owed by related parties	
	2018 £'000	2017 £'000	**2018 £'000**	2017 £'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 £950,000 (2017: £900,000), as well as passing on £652,000 (2017: £697,000) raised from the sale of carrier bags and £320,000 (2017: £303,000) 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 57 to 72. Summary information on remuneration of key management personnel is included in Note 5.

Ten-year history

	2009[1]	2010[1]	2011	2012 (as restated)[2]	2013	2014 (as restated)[1,3]	2015[1]	2016	2017	**2018**
Turnover (£'m)	658.2	662.3	701.1	734.5	762.4	806.1	835.7	894.2	960.0	**1,029.3**
Total sales growth (%)	4.8%	0.6%	5.8%	4.8%	3.8%	5.7%	3.7%	7.0%	7.4%	**7.2%**
Company-managed shop like-for-like sales growth (%)	0.8%	0.2%	1.4%	(2.7%)	(0.8%)	4.5%	4.7%	4.2%	3.7%	**2.9%**
Earnings before interest and tax (EBIT) excluding exceptional items (£'m)	48.4	52.4	53.0	51.3	41.5	58.1	73.1	80.3	82.2	**89.8**
EBIT margin excluding exceptional items (%)	7.4%	7.9%	7.6%	7.0%	5.4%	7.2%	8.7%	9.0%	8.6%	**8.7%**
Pre-tax exceptional (charge)/ credit (£'m)	–	–	7.4	1.4	(8.1)	(8.5)	–	(5.2)	(9.9)	**(7.2)**
Profit on ordinary activities including exceptional items and before tax (£'m)	48.8	52.5	60.5	52.4	33.2	49.7	73.0	75.1	71.9	**82.6**
Diluted earnings per share excluding exceptional items (pence)	34.0	37.3	38.8	38.3	30.6	43.4	55.8	60.8	63.5	**70.3**
Dividend per share (pence)	16.6	18.2	19.3	19.5	19.5	22.0	48.6[4]	31.0	32.3	**35.7**
Total shareholder return (%)	29%	11%	13%	(6%)	1%	70%	87.1%	(23.8%)	47.5%	**(7.4%)**
Capital expenditure (£'m)	30.3	45.6	59.1	46.9	47.6	48.9	71.7	80.4	70.4	**73.0**
Return on capital employed (excluding exceptional items)	25.9%	25.9%	24.4%	21.3%	16.4%	22.4%	26.8%	28.1%	26.9%	**27.4%**
Number of shops in operation at year end	1,419	1,487	1,571	1,671	1,671	1,650	1,698	1,764	1,854	**1,953**

Notes:
1 2009 and 2014 were 53 week years, impacting on total sales growth for that year and the year immediately following.
2 Restated following the adoption of IAS 19 (Revised).
3 Restated to include revenue in respect of franchise fit-out costs.
4 Includes a special dividend of 20 pence.

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, with a calendar year's trading history and is calculated as follows:

	2018 £'000	2017 £'000
Current year LFL sales	**876,337**	817,533
Prior year LFL sales	**851,731**	788,510
Growth	**24,606**	29,023
LFL sales growth percentage	**2.9%**	3.7%

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

	2018 Underlying £'000	**2018 Including exceptional items £'000**	2017 Underlying £'000	2017 Including exceptional items £'000
Profit before tax	**89,831**	**82,618**	81,807	71,945
Capital employed:				
Opening	**313,340**	**313,340**	294,536	294,536
Closing	**343,024**	**343,024**	313,340	313,340
Average	**328,182**	**328,182**	303,938	303,938
Return on capital employed	**27.4%**	**25.2%**	26.9%	23.7%

Notes

Notes

Financial Calendar

Announcement of results and dividends

Half year	Late July
Full year	Early March

Dividends

Interim	Mid-October
Final	30 May 2019
Annual report posted to shareholders	Early April
Annual General Meeting	21 May 2019

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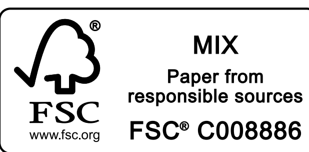

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