Greggs plc Annual Report and Accounts 2019

Sharing a great tasting, record breaking, award winning year

THE NATION'S FAVOURITE

2,000th shop

Customer numbers

No.3 for coffee!

We've enjoyed our best year yet, as we continue on our journey to become the customers' favourite for food-on-the-go

2019 will be a year to remember for Greggs

It saw us open our 2,000th shop, come close to completing our manufacturing investment programme, commission a shiny new Distribution Centre in Amesbury and (perhaps somewhat surprisingly), it was one that saw us become the champion of vegans and flexitarians everywhere.

Although we've been serving more and more customers in recent years, thanks to the delivery of our business plan, it was our award winning Vegan Sausage Roll that got people thinking differently about Greggs.

Boris Johnson declared he was a fan of our sausage rolls. Piers Morgan called us "PC-ravaged clowns". Lewis Capaldi sang about his undying love for Greggs. It all added up to making us one of the most talked about and admired brands in the UK, which helped to make 2019 a record breaking year in many ways.

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Cheers to a record breaking year

Since 1939 we've been on a roll making great tasting food, people smile and life taste better.

In 2019 we turned 80 years young and celebrated in style.

An all-time record number of customers enjoyed, on average, 18 million products from our ovens and shelves every week. Sales and profits broke all records, which meant we could pass on some celebratory goodies to our biggest supporters.

- Shareholders received record returns, thanks to a special dividend and an impressive share price
- The Greggs Foundation received their biggest donation from Company profits yet
- Greggs colleagues earned a record piece of the profit share pie – and a surprise thank you payment for delivering our best year yet

And the winner is...

The greatest accolade is when customers come back time and time again. But everyone likes to be recognised for a job well done. In 2019, we were honoured to receive lots of awards, mainly because they're a wonderful tribute to our hard working, brilliant people. In December came the cherry on our Belgian Bun, when we were voted Britain's Most Admired Company[1] by our industry peers. Here's a few of our other favourites:

- Brand of the Year: Marketing Week Marketing Masters Awards
- Innovative Company of the Year: City AM Awards
- Food to Go Operator of the Year: IGD Awards
- Making a Difference Award: North East Children's Cancer Research Foundation's 40th Anniversary Awards
- Product Launch of the Year: PETA Vegan Food Awards

1 Echo Research; Management Today Awards.

So much more than sausage rolls

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. While they will always be our best seller, we're well on our way to becoming the customers' favourite for food-on-the-go across the board, and here's the stats to prove it:

- → No.1 for sausage rolls (both meat[1] and vegan[2]) and sandwiches[3]
- → No.2 for breakfast[3] and lunch[3]
- → No.3 for coffee[3]

1 Source: Nielsen 2019
2 Source: NPD SnapMyEats 2019
3 Source: NPD Crest 2019

Celebrating 20 years of Breakfast Clubs

For various reasons a lot of kids don't get the right start to the day, which is why we created our Breakfast Clubs back in 1999.

Over the last 20 years the programme has gone from strength to strength, thanks to magnificent fundraising efforts by Greggs colleagues, and the financial support of our partners:

- Today there are 537 Breakfast Clubs, serving wholesome, free breakfasts to 36,000 children every school day
- In 2019, we donated 376,945 loaves of bread, helping to serve over seven million breakfasts

2,000 shops and counting

In August 2019 we reached a major milestone when we unwrapped our 2,000th shop. The location is a multi-million pound transport interchange in South Shields – which is fitting considering the North East is where we started our journey 80 years ago. It's also a great example of how we're taking Greggs to where our customers are and want us to be.

Manufacturing quality in serious quantity

With our latest Manufacturing Centres of Excellence created in Enfield, Glasgow and Treforest, our teams have met a hungry rise in demand, while also settling into their new centralised patterns. Quality and consistency of product standards have never been higher – and as for volumes, it's been a record-breaking year across all of our sites:

- In 2019 Balliol in Newcastle made 37 million more savouries, compared to 2018
- Manchester made 8.5 million more pizzas
- Enfield made over 40 million bread rolls
- Gosforth made an average of 1.76 million doughnuts per week
- Leeds made over 14.5 million cream cakes
- Glasgow made over 30 million yum yums, big and small

Tackling health

Tackling Health started out as a local programme, delivered in just 15 of our Breakfast Club schools in the North East with Newcastle Falcons. Today it is a nationwide project supported by Public Health England, which thanks to the support of Premiership Rugby, is encouraging thousands of children from our Breakfast Clubs to make healthier food choices, and to get active through playing tag rugby, with promising results:

- During the 2018-19 season Tackling Health was delivered to nearly 15,000 children up and down the country
- 94% of children surveyed now want to take part in more sport or activity
- 53% of children surveyed now eat five or more pieces of fruit and vegetables a day, compared to 36% at the beginning

Building our future together

"One thing is certain: Our success is largely due to the wonderful people who have worked for Greggs over the years."

Ian Gregg, Bread

Founded on simple, old-fashioned values that reflect family traditions, our culture is best described as "the way our colleagues feel about working for Greggs". Considering they typically stay with us for an average of at least six years, we must be doing something right.

Following a period of significant change we've spent the last couple of years talking and listening to colleagues, inviting them to reflect on our culture. Together we concluded that our culture is alive and thriving, and while our business has changed a lot in recent years, we will never lose sight of what "Being Greggs means"…

Read more on **page 37** →

THE GREGGS PLEDGE

Introducing The Greggs Pledge

Greggs best kept secret is not the recipe for our iconic sausage roll, but our commitment to doing the right thing. We have so much to be proud of, but a climate emergency has been declared and we feel there is more we can and should do to recognise that fact.

This has led to the launch of The Greggs Pledge – our vision for how we will continue to offer great tasting, freshly prepared food at affordable prices, while being a responsible business. One that customers can trust to do the right thing on their behalf, and the planet's too.

Find out more about The Greggs Pledge on **page 14** →

Next Generation Greggs

While we’ve come a long way over the last seven years, we’d like to think the best is yet to come. Having centralised Greggs systems and platforms we’ve only just reached the start line. The business is in great shape and ready to launch the most exciting phase of our strategy: Next Generation Greggs.

Our vision is to make Greggs even more accessible by building a seamlessly-connected, data-driven, multi-channel experience where customers can choose where, when and how they shop with us. Building this vision means we will have to take our business to a higher level in all areas – who said you can’t teach an old dog new tricks!

Highlights

● **Underlying excluding exceptional items (see Note 4 on page 111)** ● Total including exceptional items

Total sales

Underlying excluding exceptional items	Total including exceptional items
£1,167.9m	£1,167.9m
+13.5%	+13.5%
2018: £1,029.3m	2018: £1,029.3m

Company-managed shop like-for-like (LFL) sales growth

Underlying excluding exceptional items	Total including exceptional items
9.2%	9.2%
2018: 2.9%	2018: 2.9%

Pre-tax profit

Underlying excluding exceptional items	Total including exceptional items
£114.2m	£108.3m
+27.2%	+31.1%
2018: £89.8m	2018: £82.6m

Diluted EPS

Underlying excluding exceptional items	Total including exceptional items
89.7p	85.0p
2018: 70.3p	2018: 64.5p

Ordinary dividend

Underlying excluding exceptional items	Total including exceptional items
44.9p	44.9p
2018: 35.7p	2018: 35.7p

Notional return on capital employed

Underlying excluding exceptional items	Total including exceptional items
33.6%	32.0%
2018: 27.4%	2018: 25.2%

Detailed calculations of Alternative Performance Measures, not otherwise shown in the income statement and related notes, are detailed on pages 132 and 133.

Find out more...

Progress in delivering our strategy

Read more on page 7 →

Our business performance

Read more on page 6 →

Financial performance

Read more on page 18 →

Corporate governance

Read more on page 36 →

What we do

We are a modern food-on-the-go retailer that sells millions of sausage rolls every week (and lots of other great products too)

Manufacturing

We make great tasting, freshly prepared food, that customers can trust, in our own bakeries

Delivery

We move our products from our bakeries to our shops ourselves, which helps us to keep our prices as low as possible

Shops

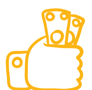
We now have 2,050 modern shops across the UK, located where our customers are, and want us to be

People

We have 25,000 amazing people, working together to provide our customers with the best experience, day in, day out

What makes us different

We are a much-loved and trusted brand that has been making life taste better for our customers, in many ways, for over 80 years

				
Purpose	**Quality**	**Convenience**	**Value**	**Service**
To make good, freshly prepared food accessible to everyone	We want our products to be the best they can be	We want to be able to serve customers wherever, whenever and however they choose	We offer great value in an extremely competitive market place	We provide customers with fast and friendly service, fixing issues without a fuss and rewarding them for their loyalty

How we do it

Purpose	Quality	Convenience	Value	Service
Our 537 Breakfast Clubs serve wholesome free breakfasts to 36,000 children every school day 1,700 organisations regularly collect unsold food from our shops and bakeries and distribute it to people who need it	We care about where our ingredients come from and maintained 'Tier 2' status on the Business Benchmark on Farm Animal Welfare, for the 4th year running Our manufacturing investment programme has taken product quality and consistency to new levels	41% of our shops are located outside traditional shopping locations We are rolling out delivery services across the country, exclusively with Just Eat	Our breakfast deal is one of the most competitive available, and we are recognised as Britain's favourite for bacon rolls Our sandwich deal and afternoon pizza + drink offer help us to deliver great value across the day	We serve over 6.5m customers every week Greggs Rewards customers now account for over 2% of sales

Strategic pillars

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.

Great tasting, freshly prepared food

You cannot beat freshly baked, freshly prepared food. Couple this with our great tasting flavours, wholesome ingredients, consistent quality and outstanding value, and this is how to do food-on-the-go.

Competitive supply chain

By owning our own supply chain, we can make great tasting, freshly prepared food affordable for everyone.

First class support teams

We've invested heavily in leading-edge systems. They equip our support teams to provide the best service to their colleagues and, ultimately, our customers.

Having a positive impact

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 that spirit of having a positive impact is alive and well at Greggs in many different ways – whether that's for our local communities, teams, customers, shareholders or suppliers.

- **Fair to the planet**
  We continue to hold the Carbon Trust Standard. In 2019 we achieved a 17 per cent reduction in intensity by increasing efficiencies across our operations.
- **Fair shares**
  Since the 1980s we have shared 10% of our profits with the people who delivered them: our employees. In 2020, this means there is a record pot of £12.8 million to divvy up, along with an additional £7 million 'special thank you' payment for delivering our best year yet.

A long-standing record of running the business in the right way for the long term

Greggs exceptional performance in 2019 comes after a multi-year programme of change and improvement. More customers are recognising the benefits of this and are shopping with us in increasing numbers.

Our colleagues have shown the resilience and versatility necessary to deliver transformational change across the business, and this has now set us up for the next phase of growth. We will embrace the opportunities this presents whilst continuing to run the business in a responsible manner, such that we deliver sustainable long-term growth for the benefit of all stakeholders.

Overview

Greggs delivered a record performance in 2019. We started the year with very strong growth in customer visits and sustained these higher customer numbers throughout the year, demonstrating that increased awareness of what Greggs has to offer has translated into customer loyalty. Cash generation has been very strong, allowing us to self-fund the significant investment programme that will enable further growth, whilst also increasing shareholder and other stakeholder returns. Given the crucial role that our colleagues have played in this success it is entirely appropriate that we have been able to reward them for an exceptional performance whilst still enhancing returns to shareholders.

Our people and values

Greggs vertically-integrated operating model gives us the control and flexibility that are key to our commercial success. Our people produce great products, take care in transporting them, and deliver outstanding service in our shops and support operations. The culture of the business, and the willingness of our teams to work together to deliver an exceptional experience for customers, has always been at the heart of Greggs success. The Board recognises this and takes great care to ensure that decisions it makes are consistent with the Company's long-term objectives and its values. The recent

pence, total ordinary dividend for the year, an increase of 25.8%.

re-launch of the Company's 'Culture Statement', after extensive consultation with staff, is outlined in the governance section of this report. This is a good example of the importance we place on the cultural underpinnings of the business; a key element in being able to deliver our strategy.

Behind the scenes at Greggs significant programmes of change have been delivered and continue to be undertaken. These have affected the roles of many of our people and I have huge admiration for the manner in which our 25,000 colleagues have dealt with this while, at the same time, delivering a record performance. I would like to record my personal thanks to them all on behalf of the Company and its shareholders.

The Board

In 2019 we welcomed Kate Ferry, CFO of TalkTalk, to the Board as a Non-Executive Director, succeeding Allison Kirkby as Audit Committee Chair. This was part of an ongoing succession plan for the Board that aims to deliver continuity and maintain a broad range of talents and experience that reflect the needs of the business. As part of this planning process, upon re-election as Directors at the AGM, Helena Ganczakowski will take on the role of chairing the Remuneration Committee from Sandra Turner, who will continue to act as Senior Independent Director, and Peter McPhillips will become our designated Non-Executive Director in relation to engagement with colleagues.

During the year the Board continued to oversee the major investments being made in our internal supply chain and core systems infrastructure, but increasingly turned its attention to the manner in which these platforms can be used to meet changing consumer needs in a digital age. Understanding these trends, and the consumer insights that explain the very strong growth in Company sales in the year, has been important as we shape future plans.

As you will see from the governance section on pages 36 to 47, the Board continues to make a significant effort to listen to the views of employees. This helps to ensure that Non-Executive Directors' contributions to Board discussions are well informed, supporting open and constructive dialogue with the management team.

Risk management continues to be an important area of focus for the Board. In 2019 the Board spent a significant amount of time examining the Company's approach to the management of allergens and its preparedness for the various scenarios relating to the UK's exit from the European Union.

Further details of the Board's work are included in the governance and committee sections of this report.

Dividend

Our dividend policy targets a progressive ordinary dividend, normally two times covered by earnings, with further surplus cash being returned to shareholders as appropriate. This was the case in 2019 when we were able to return £35.5 million of surplus cash by way of a special dividend. Our Finance Director, Richard Hutton, outlines the expected application of the distribution policy in more detail in the financial review on pages 18 to 22.

In line with its progressive ordinary dividend policy, the Board intends to recommend at the Annual General Meeting a final dividend of 33.0 pence per share (2018: 25.0 pence), giving a total ordinary dividend for the year of 44.9 pence (2018: 35.7 pence), an increase of 25.8 per cent.

Looking ahead

Notwithstanding the tough conditions that continue to affect the UK retail sector, and uncertainties that remain in the global economy such as the potential impact of Coronavirus, Greggs has made a strong start to the new year, attracting more customer visits as consumers become increasingly aware of the breadth, quality and value of our offer. We have invested in the infrastructure to compete in the growing UK food-on-the-go market and see great opportunities ahead as we embrace new channels that will extend our reach.

The relationship between business and society has been a matter of public debate recently, and we recognise that Greggs has a part to play by approaching business in the responsible manner it has become known for. 'The Greggs Pledge' is our vision of how we will continue to play our part and ensure that customers can trust us to act responsibly on their behalf. This continues a long-standing record of running the business in the right way for the long term and, I believe, will maintain our competitiveness for the future as it has done in the past.

With a strong balance sheet and cash flow, a clear strategy, dedicated and motivated employees and positive trading momentum we are looking ahead at future challenges and opportunities with confidence.

Ian Durant
Chairman
3 March 2020

Looking ahead to the future

2019 was an exceptional year of progress for Greggs, during which we experienced a sustained increase in customer visits as increased awareness and appreciation of our brand gathered momentum.

Our exceptional performance was founded on the transformational changes that we have made across our multi-year strategic investment programme to focus on growth in the food-on-the-go market. Customer visits began to build during 2018 and then stepped up again, with the successful launch of our new vegan product lines in January 2019 receiving widespread media coverage. As a team we were particularly proud to see the progress made as Greggs received recognition in several industry awards, including 'Britain's Most Admired Company 2019' in the Management Today awards.

In 2019 we continued to make good progress with the remaining elements of our business transformation programme, whilst starting to invest in the new areas that will provide growth opportunities in the years ahead. The business remains highly cash-generative and has been able to self-fund investment whilst also making a special dividend payment to shareholders and a one-off £300 'thank you' to our colleagues in January 2020. In addition, I am delighted to announce another record annual profit share payment of £12.8 million, which will benefit all qualifying employees.

As we approach the end of this transformational phase in our strategic roadmap we can look forward with confidence to the next stage in our journey as we build on this platform with the launch of our 'Next Generation Greggs' programme aimed at increasing customer loyalty, choice and access to Greggs across multiple channels at all times of day.

£300
'thank you' payment for each of our 25,000 colleagues.

Financial performance

Total sales grew 13.5 per cent to £1,167.9 million in 2019. Within this, Company-managed shop like-for-like sales (defined on page 132) grew by a record 9.2 per cent.

Despite significant increases in wage and pension costs the strong sales growth in 2019 converted to improved profitability, which has allowed us to accelerate investment in initiatives that will benefit future periods. Underlying pre-tax profit, excluding exceptional items, grew by 27.2 per cent to £114.2 million (2018: £89.8 million). Including exceptional items, pre-tax profit grew to £108.3 million.

Market background

Market conditions for general retail remain very challenging, with rising costs and fragile consumer confidence combining with a continued shift to online shopping, resulting in downward pressure on high street footfall. In contrast the food-on-the-go sector, estimated at £24 billion and increasing by 3.7% in 2019 (source: NPD Crest FY2019), is benefiting from high employment levels and growth in consumers' disposable incomes. This has supported continuing growth in customer demand for the convenience of 'food for now' rather than 'food for later'. Weather patterns in 2019 were also more consistent than had been the case in 2018.

Greggs continues to reach further into the food-on-the-go sector with more exposure to workplace and travel locations, and less dependence on shopping catchments. We have also continued to diversify and increase resilience by extending early trading for breakfast and broadening our appeal by developing our reputation across food and drink categories complementary to our traditional bakery range.

Our success in growing customer numbers over the past six years has been almost entirely driven by one channel to market – 'walk in' customers seeking food and drink from a conveniently located shop. We estimate that this single channel approach has enabled us to obtain circa five per cent share of the food-on-the-go market, leaving us with considerable scope for market share gain as we invest in increasing customer loyalty, choice and multichannel access to Greggs **wherever, whenever and however** consumers choose.

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.**

Our strategic roadmap describes our journey from a national bakery brand where the majority of shops were in high street locations to a leading food-on-the-go retailer operating across diversified locations and dayparts, with a modernised supply chain and technology infrastructure.

We have made great progress towards these aims. The reappraisal of Greggs as a food-on-the-go brand is reflected in consumer ratings, with strong increases in the rate of 'consideration', and 'purchase intent' over the last three years (source: YouGov BrandIndex). Alongside our market-leading position in traditional bakery we are now number one for sandwiches, number two for breakfast and lunch, and third in the UK out-of-home coffee market (source: NPD Crest, share of visits, FY2019). Whilst sausage rolls remain our signature product our appeal extends well beyond this, with a breadth of range offering hot and cold food and drink options for all times of the day.

The transformation programme that supports our future plans is nearing completion and will deliver the technological platform to manage a modern food-on-the-go business, along with capacity in our supply chain to support our medium-term growth plans. Having this platform puts us in a position to start to extend our service to customers looking for something more than our core 'grab-and-go' offer.

The next stage of this journey will see us continue to grow the size and quality of the shop estate to more than 2,500 shops whilst also adopting a multichannel approach to increase customer access to Greggs. Our strategic plan focuses on four pillars, which have not changed; however in this next stage the objective 'Developing new ways for customers to access our offer' becomes the key focus, with customer experience moving to the fore.

1. Best customer experience

Customer expectations are changing rapidly in the food-on-the-go market, with digital technology providing access to greater convenience and better service.

In 2019 we trialled developments in digital loyalty, 'click and collect' options, home delivery and bespoke ordering. All of these extend our appeal beyond our core 'grab-and-go' service and overcome customer obstacles to choosing Greggs that will enable us to attract new visits and build market share.

We have seen sufficiently encouraging results in these stand-alone trials to embark on a strategic programme of investment, which will bring these channels together on an integrated platform centred on our Greggs Rewards digital loyalty scheme. Whilst this is in development we have pressed ahead with the roll-out of our delivery service in an exclusive partnership with Just Eat, which will provide national coverage of major cities this year.

In the 'grab-and-go' channel fast and friendly service continues to be 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. Our investments in process and systems, together with the benefits of our best-practice programme 'The Greggs Way', are now being seen in speed of service, availability and shop productivity. Further gains are available in our shop operations as we benefit from process improvement and standardisation. New channels will require new solutions but the extent and variety of our estate will allow us to match shop to channel in order to best serve catchment areas – not all shops will be required to offer a service in all channels.

In addition to the development of these digital channels we have also pushed ahead with opportunities to grow demand for our existing offer by trading later into the evening. Once again this will not be appropriate for all shops but our trials

2,050
Shops trading at the end of the year

Next Generation Greggs: *Best customer experience*

As digital technology sweeps through the food-on-the-go market, making Greggs more accessible and providing the best customer experience must take priority in the next phase of our strategy.

With customer expectations rising we will work hard to become a seamlessly connected, data driven, multi-channel brand that can serve customers wherever, whenever and however they choose.

- Greggs Delivery will be rolled out across the UK in partnership with Just Eat
- Greggs Rewards will become a single touchpoint for all of our digital channels
- Click & Collect will help customers to jump the queue and guarantee we have their favourite product waiting for them, made the way they want it

have shown we can move forward in high customer traffic locations. Delivery roll-out will also provide further opportunities for shops to trade later.

Marketing has played a key role in driving brand consideration with our team receiving widespread recognition and winning Brand of the Year at the Marketing Week Masters awards for the success of our vegan product launch campaigns. We have invested in our insight and digital marketing capabilities to develop further the Greggs Rewards app and put customer data at the heart of our decision making and customer communication strategy.

Our shops

Relocating and upgrading our shop estate to be better suited to the food-on-the-go market has been a crucial part of our strategic transformation. We continue to see significant potential for further growth in shop numbers as we target catchments where Greggs is still not available, as well as optimising our existing estate footprint. Whilst our supply chain plans are designed to build capacity for 2,500 UK shops we see greater opportunity than this and are bringing forward our plans to invest in additional production capacity, particularly in savouries, to meet increased demand and prepare for the next phase of development of the business.

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 as well as introducing a delivery service from more of our locations. In 2019 we opened 138 new shops (including 45 franchise units) and closed 41, growing the estate to 2,050 shops trading as at 28 December 2019, 302 of which are franchised shops operated by partners in travel and other convenience locations. In August we celebrated the landmark opening of our 2,000th shop at South Shields interchange in South Tyneside.

We have a strong pipeline of new shop openings for 2020 and expect to add around 100 net new shops in the year, including around 40 with franchise partners. We will continue to focus on increasing our presence in travel, leisure and work-centred catchments. As recognition of our brand for food-on-the-go grows, new pipeline opportunities are opening up, allowing us to extend our reach further into locations such as drive-thru, railway stations, airports and major supermarkets. At the end of 2019, 41 per cent of our shop estate was located in travel, leisure and work-centred catchments and we expect this proportion will continue to rise as we expand and relocate our estate.

As we develop our reputation for coffee we are pursuing an additional growth opportunity in the provision of a fully-seated offer. We currently have 160 shops offering a food-led coffee shop experience with average sales in these units significantly ahead of the Group average. With falling costs of retail space we will be seeking to extend and relocate shops in appropriate locations to reach further into this part of the market.

The need to refurbish our shops continues to be relatively modest thanks to the substantial investments made to transform legacy bakery shops to our food-on-the-go format. We completed 57 refurbishments and franchise partners refurbished a further nine units. In the year ahead we expect to complete the transformation of 90 remaining bakery-format shops as we consider what level of investment is needed to meet demand in new channels before embarking on the next phase of shop refurbishment.

"Eventually, there will be one shop which will have a drive-thru lane, a queue of people who have walked in as normal, a queue of people who ordered on their phone and have come to collect, and a queue of people with helmets on to pick up deliveries. Some of our shops will have all those queues happening at the same time and so we've got to think about how we manage them all quickly, seamlessly and with a smile. If we can do that, we've got a winning formula."

Roger Whiteside

2. Great tasting freshly prepared food

Greggs' products are differentiated by the way that we freshly prepare food each day in our shops and offer 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. Quality is the other essential ingredient, and over the years we have developed a market-leading reputation for bakery products adapted to food-on-the-go. We own our supply chain and our transformational investment programme is now delivering even better, more consistent quality products at outstanding value-for-money prices. At the same time, we are building a reputation in new areas that create more reasons to visit Greggs, meeting food-on-the-go needs at all times of the day.

Bakery food-on-the-go

Bakery food-on-the-go remains at the core of our offer and we have seen strong growth in this area as we attract new customers and increase visit frequency. Our mission here is to make these products the best they can be from a quality and nutritional perspective, whilst recognising they must retain their essential taste characteristics. Innovation in these categories, such as the development of vegan versions of our best sellers, has attracted new customers and driven broader brand consideration.

Complementary categories

As our reputation as a food-on-the-go brand grows, customers are increasingly willing to consider us for other food and drink categories which broaden our appeal throughout the day. Even though they remain our signature item Greggs is now so much more than just sausage rolls. Last year we became the number one brand for sandwiches-on-the-go and number three for coffee (source: NPD Crest, share of visits, FY2019). The combination of these strengths contributes to our position as the number two brand for both breakfast and lunch (source: NPD Crest).

Product innovation

Product development plays a key role in driving quality, sustainability, menu variety and brand appeal. Our programme of investment to centralise bakery production enables us to move more quickly to improve quality and reformulate products to achieve sustainability objectives. An example of this in 2019 was our success in reducing the sugar content of our sweet bakery range by 20 per cent, one year ahead of the Public Health England target date.

The development of vegan options for customers has been our most successful product initiative in recent years. Customers are increasingly seeking alternatives to meat and dairy, and we see further opportunities to provide them with vegan-friendly versions of our best-selling lines such as our vegan steak bake and vegan doughnut that were launched in January 2020.

Further opportunities exist to grow our offer in coffee and hot drinks as customers increasingly expect the breadth of range offered by our competitors. We are about to begin the next phase of investment in coffee machines which will increase our capability in these areas.

No.1

Brand for sandwiches on-the-go

Hot food is another key area of opportunity and we have invested in the roll-out of hot food cabinets, extending our offer to 500 locations. Hot and cold menu balance is a key attribute of a resilient food-on-the-go model and enables us to broaden our appeal at all times of day by adding to our existing hot sandwich range and extending meal deal options.

Healthy eating options also have a key role to play in our strategy. We have examined the market and determined that demand for healthy eating food will not support a national chain of food-on-the-go shops offering only these types of product. Nevertheless, we want to encourage customers to eat more healthily and we know that convenient access is the key component in their decision-making for food-on-the-go. We have, therefore, committed to offering healthy food-on-the-go options through our 'Balanced Choice' range, alongside our traditional offer, so that our customers have convenient access and full information to be able to make balanced dietary choices on the go.

Customer food allergies are both a critical area of risk concern and an opportunity to provide better choice and service. Greggs joined others in recommending to Government that food-on-the-go providers should provide full labelling on shop-produced sandwiches to make it easier for customers to make informed choices. This will require significant changes to our in-shop sandwich-making processes and we are preparing to trial our proposed solution in the first half of 2020. At the same time growth in demand for products such as gluten-free and vegan will require operational changes throughout our supply chain and shop activities but will make it easier for the growing number of customers making these choices to shop with Greggs.

Next generation Greggs: Great tasting, freshly prepared food

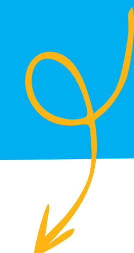
As a responsible retailer we see bakery products as savoury and sweet treats. When customers fancy a treat we want to make sure they choose Greggs because, put simply, we offer the best quality at the best value.

We will therefore continue to improve our product offer by:

- Taking the salt, fat, sugar and calories as low as we can
- Achieving Tier 1 on the Business Benchmark on Farm Animal Welfare by 2025
- Building on the success of our manufacturing investment programme, to take product quality and consistency to the next level

We will also build on our reputation for breakfast, coffee, hot food and vegetarian/vegan food, and continue to encourage customers to make healthier food choices by giving them more Balanced Choice options.

Making sure we have the right menu across our range, at all times of day, is key to becoming the customers' favourite for food-on-the-go.



20%

Reduction in sugar content achieved across our sweet bakery range, one year ahead of the Public Health England target date

3. Competitive supply chain

2019 was another year of major change and significant progress in our investment programme to support shop growth by increasing logistics capacity and consolidating our manufacturing operations.

Once complete, in 2021, this will provide capacity for around 2,500 shops and is already delivering improvements to product quality and competitiveness.

The larger elements of this programme delivered in 2019 were:

- The opening of our new distribution centre at Amesbury in Wiltshire.
- Development of our doughnut manufacturing platform at our Gosforth Park bakery in Newcastle upon Tyne to include topping and filling of products.
- Successful commissioning of an automated roll plant at our Enfield bakery.
- Creation of a vegan-friendly production facility for doughnuts at our Treforest bakery.

In the year ahead we will embark on the final stage of the investment plan, the conversion of our Birmingham site to become a dedicated distribution centre.

As we approach completion of our supply chain transformation programme new investment opportunities are opening up to unlock further efficiencies in our new centralised supply chain structure. The first of these is the construction of an automated frozen distribution facility at our Balliol Park distribution centre in Newcastle, which will increase productivity and reduce our reliance on third-party providers. As our warehousing operations become less dependent on in-time production, further efficiency gains become obtainable in our picking and logistics operation, reducing space requirements and opening up shop delivery windows.

Our original planning horizon had targeted supply chain capacity for 2,500 shops; however the recent step-up in sales of our savoury products will require us to bring forward our longer-term plans to increase capacity in our Balliol Park manufacturing facility. This work will begin in 2020 with the introduction of further automation on existing production lines whilst we plan for the construction of an additional line, which will occupy the space made available once we replace the existing cold store.

Given the scale of change in 2019 I must take this opportunity again to praise our supply chain teams who have worked tirelessly to effect all of this whilst maintaining full supplies to meet our strongly increasing sales. Their efforts were justly recognised in February when they were named `Bakery Manufacturing Company of the Year' at the Food Manufacturing Excellence Awards.

Next Generation Greggs: Competitive supply chain

Becoming the customers' favourite for food-on-the-go wouldn't be possible on the decentralised, traditional bakery model we were running just seven years ago. And while our £100 million supply chain investment programme will not fully complete until 2021, we can see exciting opportunities to build capacity and introduce new efficient ways of working. These include:

- Expanding the production capacity, and building a new 32-metre high robotic freezer facility at our Savoury Centre of Excellence in Newcastle upon Tyne
- Changing the way we pick product to become more efficient

It's not just front of house where the exciting opportunities exist.

4. First class support teams

Our investment programme to modernise our core business processes and IT systems is now close to completion, with SAP deployment now in place in most areas of the business.

The remaining challenge is to complete the roll-out of SAP to a number of our logistics and manufacturing sites, which will complete in 2021 alongside the conversion of our Birmingham bakery.

In 2019 we made great progress with the migration of the majority of our payroll processes to SAP and the introduction of self-service functionality for our people to manage aspects of their own data. The SAP solution for supply chain was introduced successfully at our new Amesbury distribution site and at our Balliol Park manufacturing and distribution site in Newcastle upon Tyne.

In the second half of the year we increased investment to develop our digital capabilities in preparation for the next phase of our strategic journey – 'Next Generation Greggs' – developing Greggs Rewards as our customer hub for a multi-channel offer.

Next Generation Greggs: First class support teams

As we complete the rollout of leading edge systems to our supply chain, our first class support teams will turn their focus to the development of a multi-channel digital blueprint, for both front and back of shop.

This will enable us to serve customers wherever, whenever and however they choose.

One example of this is our goal to develop an app that is a single point of contact for customers to shop however they choose. It will seamlessly integrate all of our digital capabilities: Greggs Rewards, Click & Collect, Greggs Delivery and e-commerce. It will also be a two-way information hub, allowing us to provide information on allergens, our menu and shop locations, and the customer can give feedback or reach customer care.

5. Greggs and sustainability

Greggs has a long-standing tradition and reputation as a socially responsible business and we have always sought to conduct our business in a way that has a positive impact on people's lives.

We are proud of our record but we also recognise that 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 recognise that more needs to be done to make business more sustainable and that we must play our part and show leadership in areas that really matter to our customers. To that end we have engaged with our employees to agree how we can raise our ambitions, to move faster and reach further with our own sustainability goals aligned to those identified by the United Nations. The result of this engagement exercise is '**The Greggs Pledge**' programme, which will be set out in our first ever Sustainability Report to be published this year.

Meanwhile, we have not stood still during 2019, making good progress across our existing sustainability objectives.

Next Generation Greggs: The Greggs Pledge

It's our duty as a responsible business to stand for more than just profit. The Greggs Pledge is about how we can do more to help people, protect the planet, and work with our partners to change the world for the better. Based on the UN's Sustainable Development Goals, The Greggs Pledge commits us to achieving the following goals by 2025:

1. 1,000 school Breakfast Clubs
2. 50 community shops – a hub for surplus food redistribution and community support
3. 25% less packaging
4. 500 eco-friendly shops
5. 100% renewable energy
6. 30% of our food offer will provide customers with healthier choices
7. Food waste will be 25% lower than in 2018
8. A workforce that is truly representative of the communities in which we operate
9. A brave new responsible sourcing strategy
10. Tier 1 in the BBFAW Animal Welfare standard

To find out more about our 2020 objectives please visit corporate.greggs.co.uk. Our 2020 Sustainability Report will be available later in the year.

We aim to use energy efficiently and minimise waste

Customer concern over the environmental impact of the economy has grown, with the threat posed by global warming ever present in the media. Plastic in particular has become a key focus and we have responded by reducing the use of single-use plastic by 350 tonnes in 2019. We have done so by replacing plastic bags with paper bags, plastic cutlery with sustainable wooden cutlery, plastic packaging with cardboard packaging, plastic gift cards with paper-based cards and plastic lifting sheets with reusable tongs. Not all these alternatives perform as well as the plastic version, but we ask our customers to tolerate some inconvenience for the sake of the environment.

Coffee cups also 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 were also proud to partner with Refill UK, becoming their largest partner to provide free drinking water for the increasing number of customers refilling their own bottles.

Most of our customers take their purchases away with them and a minority do not dispose of their waste packaging responsibly so we aim to play our part by supporting national environmental initiatives, including Keep Britain Tidy's Great British Spring Clean for the third year running.

We, like others, recognise the urgency needed to address climate change. We continue to hold the Carbon Trust Standard in recognition of our work on carbon efficiencies and our Environmental Management System is certificated to ISO 14001:2015. We continue to trial technologies and initiatives aimed at reducing our carbon footprint in a bid to target a carbon-neutral impact, and achieved a 17 per cent reduction in intensity in 2019. In addition, we now procure the majority of our electricity requirements from renewable schemes, helping us to achieve an overall reduction in intensity of 63 per cent.

We encourage healthier food-on-the-go choices

Obesity is another growing crisis in society that we are determined to play our part in addressing. In a world where our customers lead increasingly busy lives, convenience often rules in their food choices. Greggs exists to provide our customers with convenient access to food and drink on the go, and we want them to have product choices and clear information to help them make good, well-informed decisions. We provide calorie and nutritional information for all our products either on shelf or through our website and mobile application. We were the first UK food-on-the-go brand to introduce traffic light labelling on its website and app and, in 2019, rolled it out to our own-label crisps and drinks. Diabetes UK highlighted Greggs as an example of good practice as part of their Food Upfront Pledge, which we engaged with.

Our 'Balanced Choice' range launched six years ago offers products with fewer than 400 calories and good nutritional content and because of our wide distribution this has established itself as one of the strongest selling ranges of lower calorie food in the market. Whilst we remain committed to selling our traditional bakery products, we have worked hard over many years to make these products the best they can be whilst remaining true to their great tasting heritage.

We are active supporters of campaigns to promote healthier eating, promoting the 400-600-600 campaign led by Public Health England and the 'Pledge for Veg' in partnership with the Food Foundation. We were also proud supporters of the British Nutrition Foundation's 'Healthy Eating Week', a campaign that encourages UK school children and workplaces to focus on healthy eating and drinking, and physical activity.

Finally, we have worked with the Greggs Foundation to introduce primary school children across the UK to good nutrition and sporting activity through the 'Tackling Health' programme in partnership with Premiership Rugby. Following a successful first year, in which this initiative was delivered to 15,000 children, 94 per cent of those surveyed said they wanted to take part in more sport or activity having taken part in the programme, and 53 per cent now eat five or more pieces of fruit and vegetables a day, compared to 36 per cent at the beginning.

We care about where our ingredients come from

Customers are showing greater interest in where their food comes from and we have continued to improve our sourcing to meet these preferences. All of the tea, coffee, hot chocolate, orange juice, apple juice and bananas we sell are certified Fairtrade and the premium paid for these products over the last 15 years has enabled farmers to invest £4.4 million into their farms and communities.

We source our ingredients from sustainable sources and maintained a 'Tier 2' standing in the Business Benchmark on Farm Animal Welfare for the fourth year running. Greggs is one of only eight companies to have moved up three tiers in the BBFAW rankings since they were established in 2012, and we currently lead the restaurant and bars sector.

In 2019 we became a member of the Roundtable on Sustainable Palm Oil (RSPO). All of the palm oil used in our products meets RSPO standards, and has done since 2014.

We are proud to have held a Good Egg Award from Compassion in World Farming since 2014 for using free-range whole/shell eggs and are delighted to confirm that from September 2019 all of our liquid egg purchases now also come from eggs laid by cage-free hens.

We share our success with the community around us

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. Redistributing unsold food is one way in which we can help, and by the end of 2019 more than 1,700 organisations were regularly collecting unsold food from our shops and bakeries, however many charities do not have the infrastructure and controls needed to manage temperature-controlled foods safely. Therefore, in 2019 we re-launched an initiative first conceived by Greggs in the 1970s, to redistribute surplus food ourselves through our own chain of 'outlet shops' sited in low income community locations. These outlets sell safe second-day food at very low clearance prices, and are proving very popular. In the year ahead we plan to open several more to add to our existing chain of ten.

Each year we donate at least one per cent of profits to the Greggs Foundation and this, along with support from our customers, colleagues and partners, has enabled the charity to invest over £3 million in 2019 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 celebrated its 20th anniversary in 2019. With support from 97 partners, this programme now provides over 36,000 free wholesome breakfasts every school day to children in over 537 primary schools; that's seven million breakfasts across the school year.

We also fundraise for other charities that our people and customers feel passionate about, including the Poppy Appeal and of course our long-standing support for BBC Children in Need, where in 2019 we were delighted to hit the magic £1 million mark for this great cause once again. 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. Having supported the event since its conception in 1982, we were delighted to accept a 'Lifetime Achievement Award' at the charity's 40th anniversary celebration.

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. We have engaged with our teams across the business to reflect on what 'being Greggs' means and are confident that our culture and values are alive and thriving and as fit for purpose now as they have ever been. Our Employee Opinion Survey provides us with the best insight to understand employee sentiment and the feedback remains at sector-leading levels. Our engagement score for 2019 increased once more and now stands at 84 per cent.

Whilst we can be proud of our reputation as an employer we recognise that we have room for improvement, particularly in the area of diversity. In this respect we are committed to making improvements by challenging ourselves to meet the criteria of the externally-accredited National Equality Standard. One area of focus in recent years has been our commitment to supporting progression for women in management.

Our gender pay gap improved marginally in 2019 to 17.6 per cent, however this statistic is dominated by the disproportionate number of women working in our shops. Female representation on the Board stands at 43 per cent, placing us 22nd in the FTSE 250 in the Hampton-Alexander report, but falls to 22 per cent at Operating Board level. Our key opportunity lies in supporting women to progress their careers and to that end we have created a women's leadership development group to help build a diverse pipeline for the future.

We recognise our responsibilities as a major employer and seek to extend employment opportunities for hard-to-reach people who find it difficult to break out of unemployment through our Fresh Start programme. One area where we have been active for several years has been our work with ex-offenders where we have provided support in prisons and employed over 100 people on release, many of whom have stayed and gone on to progress with us.

Critical to our culture is recognition of our colleagues as stakeholders in our business alongside our shareholders. Employees are encouraged to become shareholders through share investment schemes, and around 3,500 choose to do so. We also have a long tradition of sharing ten per cent of our profits with employees each year and in March 2020 we will be sharing another record £12.8 million with our people as a result of our performance in 2019. In addition, we were delighted to make a special payment of £7 million as a one-off 'thank you' for their contribution to an exceptional business performance.

Outlook for 2020

We made a very strong start to 2020 in January, but have seen a significant impact on sales growth as a result of the storms that have affected the UK in February. Overall, in the nine weeks to 29 February 2020, Company-managed shop like-for-like sales grew by 7.5 per cent, and total sales were up 11.7 per cent. The flooding that resulted from the storms temporarily closed our supply site in Treforest, South Wales, and our teams there and across the business have done a terrific job in re-establishing operations.

As previously indicated, cost increases are likely to present a stronger-than-normal headwind in 2020, with wages and pork commodities driving cost inflation. We intend to invest some of the margin generated by our strong performance in 2019 to protect customers from these costs.

Demand for food-on-the-go continues to grow and we are investing in opportunities to develop further market share. Nevertheless, there is some uncertainty in the outlook, particularly given the potential impact of Coronavirus. This aside, we expect to make year-on-year progress and will do so from a strong financial position, supporting our investment for further growth whilst also delivering good returns for all stakeholders. Our expectations for the year remain unchanged.

Roger Whiteside OBE
Chief Executive
3 March 2020

In a strong financial position

Greggs' financial performance in 2019 was record-breaking on many fronts. These results reflect the benefits of our multi-year investment programme and the operational leverage arising from very strong sales growth.

The resulting cash generation has allowed us to bring forward investment in the growth opportunities that lie ahead whilst also rewarding both employees and shareholders with improved returns.

	2019 £m IFRS 16 basis*	2018 £m IAS 17 basis*
Revenue	**1,167.9**	1,029.3
Operating profit (excluding exceptional items and property profits)	**120.0**	89.1
Property profits	**0.7**	0.7
Operating profit (excluding exceptional items)	**120.7**	89.8
Finance expense	**(6.5)**	(0.0)
Profit before taxation (excluding exceptional items)	**114.2**	89.8
Profit margin (excluding exceptional items)	***9.8%***	*8.7%*
Exceptional items	**(5.9)**	(7.2)
Profit before taxation	**108.3**	82.6

* 2019 results are presented following the adoption of IFRS 16 (lease accounting); 2018 figures are as previously reported (i.e. not restated, see below for further details).

Sales

Total Group sales for the 52 weeks ended 28 December 2019 were £1,167.9 million (2018: £1,029.3 million), an increase of 13.5 per cent. Sales in Company-managed shops with more than one calendar year's trading history ('like-for-like') grew by 9.2 per cent to £987.8 million (2018: £904.7 million).

Profit

Underlying profit before tax excluding exceptional items was £114.2 million (2018: £89.8 million), an increase of 27.2 per cent. This included a £0.7 million contribution from property disposals (2018: £0.7 million).

Including exceptional items, pre-tax profit was £108.3 million (2018: £82.6 million).

Impact of IFRS 16 adoption

These are the first full-year results that the Company has published since the adoption of IFRS 16 (lease accounting). The balance sheet at 28 December 2019 now recognises 'right-of-use assets' of £272.7 million and lease liabilities totalling £275.7 million. In the income statement rent costs have been replaced by a straight-line depreciation charge of £50.8 million on right-of-use assets and an interest charge of £6.6 million. As disclosed in our 2018 annual report, we expected that the adoption of IFRS 16 would increase reported operating profit by £2.6 million but reduce full-year profit before tax by £4.2 million in 2019, when compared with the previous method of accounting for leased assets. These results reflect this impact. As a result of adoption of the 'modified approach' to transition, the 2018 comparative results have not been restated.

Profit margin

Profit margin, including finance expenses but before exceptional items, was 9.8 per cent (2018: 8.7 per cent). Including exceptional items, the profit margin was 9.3 per cent (2018: 8.0 per cent).

Gross margin before exceptional items increased year-on-year to 64.7 per cent (2018: 63.7 per cent). The improvement reflected the benefits of the programme of investment in our internal manufacturing operations, plus the impact of strong volume growth in own-produced products. Including exceptional items, gross margin was 64.2 per cent (2018: 63.1 per cent).

Distribution and selling costs reflected the operational gearing inherent in our shop costs, with the cost ratio improving to 49.0 per cent (2018: 49.9 per cent). Although wage rates have increased significantly property lease costs have been more benign and the strong growth in like-for-like sales has not been matched by equivalent costs. Additionally, the adoption of IFRS 16 has reduced the ratio by 0.2 per cent. The growth in the administrative expenses ratio to 5.3 per cent (2018: 5.1 per cent) reflected provision for incentive costs associated with the Company's strong performance in the year.

In 2019 we continued to drive actions to make the business simpler and more efficient, and in doing so again partially mitigated the impact of cost inflation on the business. In 2019 we delivered savings of £9.9 million (2018: £7.4 million) through procurement, waste reduction, and operational efficiency initiatives. Wage cost inflation continued to be a headwind and this will be the case again in 2020 as we manage the impact of National Living Wage increases. In addition, we have been experiencing significant increases in the cost of pork, a key ingredient for a number of our products. This is likely to continue in the year ahead as global markets react to constrained supply. In the year ahead we expect wage and salary cost inflation of around four per cent, whilst cost inflation on food inputs could be in the region of seven per cent.

Exceptional items

Our major investment programme, designed to reshape our internal supply chain for future growth, commenced in 2016 and is on schedule to complete in 2021. We expect the total exceptional cash costs of this change programme, excluding any associated property disposal gains, to be in the region of £27.0 million, with a further £4.0 million charge in respect of non-cash costs (accelerated depreciation and asset write-offs). Total charges so far amount to £28.7 million and we expect a further £2.3 million charge across 2020/2021.

Activity in 2019 included further work on the consolidation of doughnut manufacturing at our Gosforth Park bakery in Newcastle upon Tyne, roll production at our Enfield bakery and the commissioning of a national facility for the production of fresh cream products at our Leeds bakery. The exceptional charge in relation to this programme was £5.9 million in 2019 (2018: £5.9 million).

9.2%
growth in like-for-like sales

The total exceptional charge for the year was £5.9 million (2018: £7.2 million), comprised as follows:

	2019 £m	2018 £m
Supply chain restructuring:		
– redundancy costs provision/(release)	**0.7**	(0.2)
– transfer of operations	**5.0**	4.9
– property-related	**0.1**	0.5
Cash costs of supply chain restructuring	**5.8**	5.2
– depreciation and asset write-offs	**0.1**	0.7
Net supply chain restructuring charge	**5.9**	5.9
GMP equalisation past service costs	**–**	1.7
Release of prior years' exceptional		
– property-related	**–**	(0.4)
Total exceptional items	**5.9**	7.2

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. Proceeds to date from property disposals associated with this programme have totalled £1.5 million and we continue to expect the ultimate total proceeds arising from site disposals to be close to £20 million, in line with those anticipated in our investment plan.

The Board considered the treatment of the £7.0 million special 'thank you' payment to employees and concluded that it should not be classified as exceptional given its inherent relationship to the strength of the underlying result for the year. It is, however, one-off in nature and not expected to be repeated.

In 2019 the total cash impact of exceptional items was a net outflow of £9.1 million (2018: £9.0 million cash outflow). We expect the 2020 cash outflow in respect of exceptional items to be c.£3.0 million.

Increase in underlying profit before tax

Financing charges

There was a net financing expense of £6.5 million in the year (2018: £0.0 million) reflecting the interest charge on lease liabilities following the adoption of IFRS 16 and the funding position of the defined benefit pension scheme, offset by interest received and exchange gains and losses. In the year ahead we expect to incur a financing expense of around £7.0 million relating to the interest charge on lease liabilities and the small net liability of the pension scheme at the start of the year.

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 19.6 per cent (2018: 20.3 per cent). The overall tax rate for the year including exceptional items was 19.7 per cent (2018: 20.4 per cent). The year-on-year reduction in the effective rate primarily reflected a relative reduction in the impact of disallowed expenses as the Company generated higher levels of profit.

We expect the effective rate for 2019 to be around 20.25 per cent and that the effective rate going forward will be around 1.5 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.

In 2020 the larger company payment regime for UK Corporation Tax will change with the result that instalments are effectively brought forward by six months. The impact on cash flow for Greggs is anticipated to be an additional outflow of around £11.0 million in the first half of 2020.

Earnings per share

Diluted earnings per share before exceptional items were 89.7 pence (2018: 70.3 pence), an increase of 27.6 per cent. Basic earnings per share before exceptional items were 91.0 pence (2018: 71.1 pence). Including exceptional items diluted earnings per share were 85.0 pence (2018: 64.5 pence) and basic earnings per share were 86.2 pence (2018: 65.2 pence).

Dividend

The Board recommends a final ordinary dividend of 33.0 pence per share (2018: 25.0 pence). Together with the interim dividend of 11.9 pence (2018: 10.7 pence) paid in October 2019, this makes a total ordinary dividend for the year of 44.9 pence (2018: 35.7 pence), an increase of 25.8 per cent. This is in line with our progressive dividend policy and is covered two times by diluted earnings per share before exceptional items. In line with our policy on special distributions, as outlined below under 'Cash flow and capital structure', we paid a special dividend of 35.0 pence in October 2019.

Subject to the approval of shareholders at the Annual General Meeting, the final dividend will be paid on 21 May 2020 to shareholders on the register on 17 April 2020.

Balance sheet

Capital expenditure

We invested a total of £86.0 million (2018: £73.0 million) in capital expenditure during 2019. The total included £36.0 million for development and maintenance of our retail estate and £7.8 million in respect of development and maintenance of our IT infrastructure. Investment in our supply chain totalled £42.2 million as we opened our latest distribution centre at Amesbury in Wiltshire, began investment in our new automated cold store, and continued to consolidate our previously decentralised regional bakery operations. Depreciation and amortisation on property, plant and equipment in the year was £59.9 million (2018: £55.9 million). As noted above a further £50.6 million (2018: £nil) of depreciation was charged in respect of right-of-use assets as a result of the adoption of IFRS 16 (lease accounting).

The investment for growth in our supply chain capacity will continue in 2020 as we develop the distribution capacity of our Treforest and Birmingham sites, and increase manufacturing capacity at our Balliol Park savoury production facility in Newcastle upon Tyne, whilst continuing construction of an automated cold store on the same site. We will also continue to expand our shop estate, investing in around 100 new Company-managed shops alongside further openings with franchise partners. Overall, we plan capital expenditure of around £100 million in 2020.

The investment programme to transform our supply chain is expected to complete in mid-2021 and is already delivering net benefits ahead of our initial plan. Product quality and consistency has improved and the net supply cost in 2019, when compared with the 2015 base, is £9.5 million lower. This compares favourably with the £7.0 million net efficiency expected from the investment programme.

We intend to continue to grow net shop numbers at a rate of c.100 per year, with a gross opening rate of around 100 Company-managed shops driving the capital expenditure requirement. The requirement for capital expenditure to refurbish our existing shops will increase in the coming years, as we come out of the current low point in the refurbishment cycle. Supply chain expenditure on our transformation programme will reduce but we intend to invest in further manufacturing capacity in order to meet demand for our iconic savoury products. Overall, we expect the medium-term capital expenditure requirement to be around £90 million per annum.

Working capital

Group net current liabilities increased to £66.4 million at the end of 2019 (2018: £4.5 million). This was due to the adoption of IFRS 16 with £48.8 million of lease liabilities being included in current liabilities in 2019. We held a relatively high cash balance at the end of 2019 thanks to the strong financial performance and some delays in the anticipated phasing of capital expenditure. Inventory levels rose by £3.1 million and receivables fell by £4.5 million in the year.

27.6%

Increase in diluted earnings per share excluding exceptional items

Pension scheme liability

The net liability shown on the balance sheet for the Company's closed defined benefit pension scheme decreased to £0.6 million (2018: £8.4 million). The Company made a £5.0 million special contribution to the scheme in the year in support of the trustee's strategy to adopt a more liability-driven investment approach, with the ultimate aim of achieving a future buy-out of the scheme's liabilities. In 2019 the assets of the scheme gained in value, though this was largely offset by changes in the actuarial assumptions used in accounting for the scheme, particularly a weakening 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, a management committee 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 2019 was very good, with average sales materially above the level expected at the time of investment. New shops opened in 2018 have also performed particularly well and are showing excellent returns for their level of maturity. We continue to see particularly strong returns on the relocation of shops within their existing catchments and will continue to examine the opportunity to improve the quality of our existing estate in this way.

In 2019, on an IFRS 16 basis, we delivered an overall return on capital employed (ROCE, defined on page 133) of 20.0 per cent excluding exceptional items. On the pre-IFRS 16 basis the performance in 2019 would have been reported as a ROCE of 33.6 per cent (2018, IAS 17 basis: 27.4 per cent), reflecting the strength of performance in the year relative to the capital base.

Cash flow and capital structure

The net cash inflow from operating activities after lease payments in the year was £169.5 million (2018: £136.1 million). At the end of the year the Group had net cash and cash equivalents of £91.3 million (2018: £88.2 million).

Given the significant growth in the business in recent years the Board believes that, going forward, it is appropriate to target a year-end net cash position of around £50.0 million, to allow for seasonality in our working capital cycle. The current cash position is clearly above this level, reflecting the strength of performance in 2019 and the Company's requirements for capital expenditure and tax payments in 2020. It is, however, likely that a proportion of the current cash position will be surplus to requirements under existing plans. Given the current outlook uncertainties we are keeping these plans under active review and, in line with our existing policy, will consider declaration of a special dividend at the time of the interim results in July 2020.

Richard Hutton
Finance Director
3 March 2020

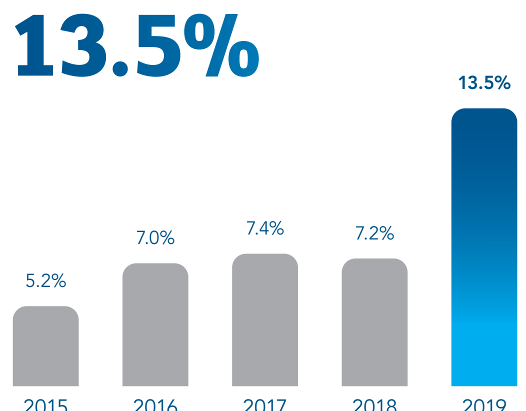
Freshly ground to order, just for you
GREGGS
17

We use a number of financial and non-financial measures to track our progress against our strategy

Graph key:

Total sales growth:

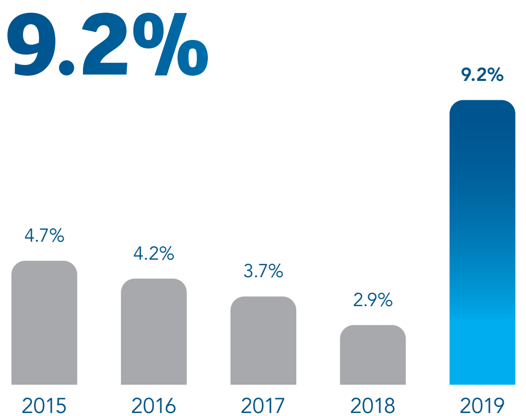
13.5%



The percentage year-on-year change in total sales for the Group.

Like-for-like sales growth:

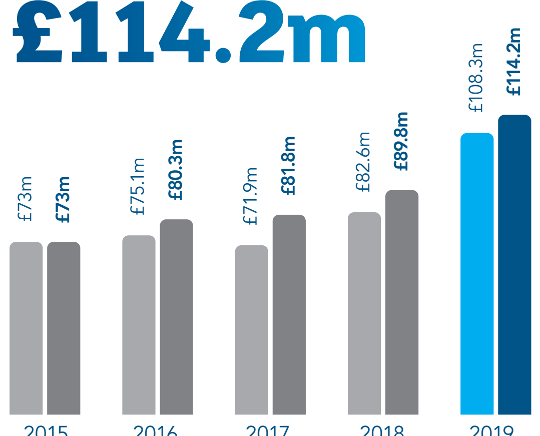
9.2%



Compares year-on-year cash sales in our Company-managed shops, excluding any shops which opened, relocated or closed in the current or prior year. Like-for-like sales growth includes selling price inflation and excludes VAT. The impact of shop refurbishment is included in like-for-like sales growth. The calculation of these figures can be found on page 133.

Profit before tax (PBT):

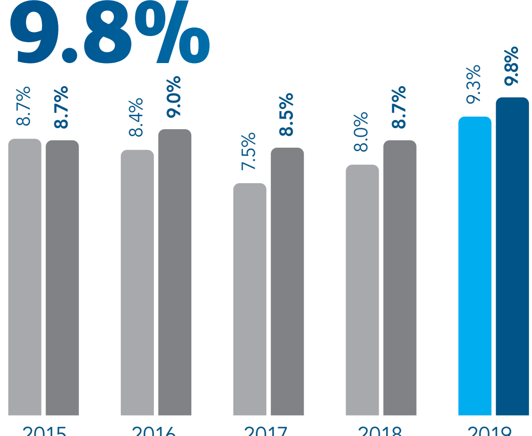
£114.2m



Reflects the performance of the Group before taxation impacts and the underlying measure excludes any exceptional items arising in the year. Following the adoption of IFRS 16 in 2019 the Group started using PBT as a KPI rather than operating profit as PBT includes the full cost of the Group's property leases.

PBT margin:

9.8%

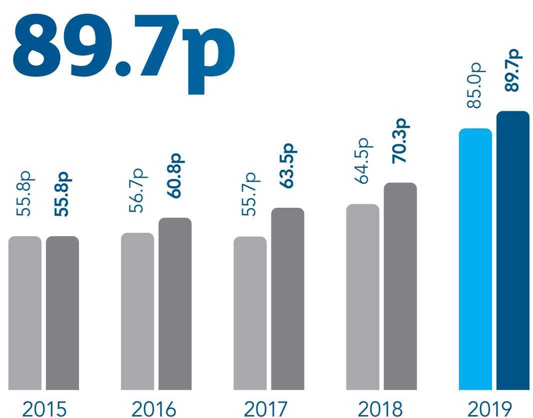


Shows the PBT of the Group as a percentage of turnover. The underlying measure excludes any exceptional items arising in the year.

We use eight key financial performance indicators to monitor the performance of the Group against our strategy. The definition of these KPIs and our performance over the last five years are detailed below. The profit, cash flow and ROCE KPIs have been amended during 2019 to take account of the impact of IFRS 16. All of the non-GAAP measures (other than like-for-like sales growth) detailed can be calculated from the GAAP measures included in the annual accounts. All of the underlying measures exclude the exceptional items detailed in Note 4. Commentary on these KPIs is contained within the financial review:

Diluted earnings per share (pence):

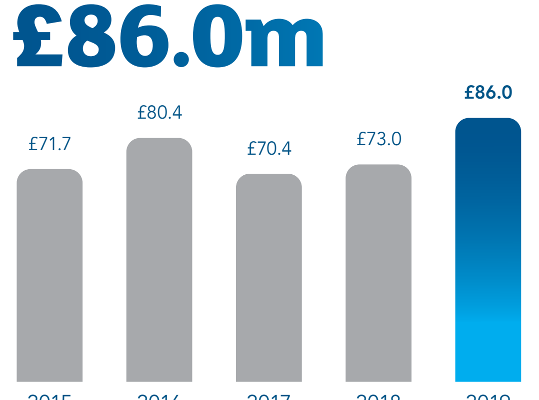
89.7p



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 (£m):

£86.0m



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

Graph key:

Underlying

Including exceptional items

Notional element

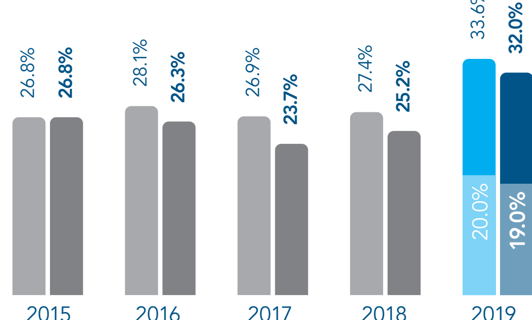
Net cash inflow from operating activities after lease payments (£m):

£169.5m

Operating profit adjusted for the impact of non-cash items, working capital movements and repayment of the principal on lease liabilities. The calculation of these figures can be found on page 133.

Return on capital employed (ROCE):

32.1%



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 133. As the ROCE figure is significantly impacted by the implementation of IFRS 16 an additional notional figure has been calculated to highlight the impact – the calculation of these figures can be found on page 133.

Non-financial key performance indicators

KPI	Our commitment	2019 targets	Status	Champion	United Nations Sustainable Development Goals
	Customer health We encourage healthier food-on-the-go choices	– Reduce sugar by 20% in line with the Government's Childhood Obesity Plan (based on 2015) – Healthier Choice sales to be 25% of our overall sales mix by end of 2019	 [1]	Commercial Director	3 GOOD HEALTH AND WELL-BEING
	Responsible sourcing We care about where our ingredients come from	– Maintain Tier Two BBFAW (Business Benchmark on Farm Animal Welfare)		Commercial Director	12 RESPONSIBLE CONSUMPTION AND PRODUCTION
	Community We share our success with the people around us	– Tackling health initiatives to reach 250 schools		Finance Director	11 SUSTAINABLE CITIES AND COMMUNITIES
	Environment We aim to use energy efficiently and minimise waste	– Reduce our carbon footprint intensity by a further 2% – Increase redistribution of unsold food to 25%	 [2]	Property and Business Development Director	13 CLIMATE ACTION
	People We are committed to creating a great place to work	– Successfully deliver year three of the National Equality Standard action plan – Increase the frequency of our Employee Opinion Survey to twice yearly		Retail and People Director	10 REDUCED INEQUALITIES

[1] In 2019 Healthier Choice sales were 21.6% of the sales mix. Whilst this was below the stated target, partly due to the strong performance of our savoury category, which was helped by the launch of the Vegan Sausage Roll, we remain committed to offering customers healthier choices.

[2] We actually delivered a 29% increase year on year – equating to the biggest annual increase in tonnage delivered so far . Although we didn't hit our target this is still a fantastic result. It was achieved by working hard to identify good causes to donate unsold food to – by the end of 2019, we had 1,700 organisations regularly collecting unsold food from our shops and bakeries.

Carbon footprint

We, like others, recognise the urgency needed to address climate change. We continue to hold the Carbon Trust Standard in recognition of our work on carbon efficiencies and our Environmental Management System is certificated to ISO 14001:2015. In addition we disclose our GHG emissions through the Carbon Disclosure Project (CDP). We continue to drive efficiencies to further reduce our carbon footprint in a bid to target a carbon-neutral impact and achieved a 17 per cent reduction in (gross intensity) in 2019. Furthermore, as we now procure electricity from renewable sources for 95 per cent of our estate and generate renewable electricity from the photo-voltaic arrays on our manufacturing sites, we achieved an overall reduction in intensity of 63.9 per cent (compared with 2018).

As a result of the above, our net carbon footprint for the 2019 financial year was 41,577 tonnes of carbon dioxide and equivalent gases (CO_2e), with an intensity of 35.76 tonnes of CO_2e per £million turnover.

Dual emissions reporting

Overall emissions have been presented to reflect both location and market-based methodologies, affecting both Scope 1 and Scope 2 emissions.

Scope 1: All Scope 1 emissions have been calculated using UK Government's GHG Conversion Factors for Company Reporting 2019 for all sources.

Scope 2: 96 per cent of UK electricity is covered by Green Tariff and PV renewable sources, which meets all of the required quality criteria; therefore 96 per cent of UK electricity emissions have been reported at zero emissions. The remaining UK electricity has been reported at supplier-specific emissions rate.

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 30 December 2018 to 28 December 2019.

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 (2019).

The 2019 emissions are verified by the Carbon Trust as part of the review of our carbon footprint.

Gender of workforce*

We are proud of our reputation for bringing the best talent through the business regardless of gender and that 68.8 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	62	73	135
Other Managers	269	291	560
All Employees	17,149	7,776	24,930

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

		Current reporting year 2019 (tonnes of CO_2e)	Comparison year 2018 (tonnes of CO_2e)	Base year (2015)
Location based emissions				
Scope 1	Combustion of fuel & operations of facilities	**33,155**	33,245	31,509
Scope 1	Refrigerants	**5,513**	6,282	4,360
Scope 2	Electricity purchased for own use (inc PV Generated & green tariff)	**57,294**	61,938	89,375
Gross emissions	Total scope 1+2 CO_2e emissions	**95,962**	101,465	125,244
Gross intensity measure	Tonnes of CO_2e per £m turnover	**82.54**	99.32	149.86
	Percentage change 2019 compared with 2018	**(16.89%)**		(44.92%)
Market Based Emissions				
Scope 1	Combustion of fuel & operations of facilities	**33,155**	33,245	31,509
Scope 1	Refrigerants	**5,513**	6,282	4,360
Scope 2	Residual electricity	**2,909**	59,477	88,907
Total scope 1+2 emissions	Total scope 1+2 CO_2e emissions to account for use of renewable energy	**41,577**	101,208	124,776
Intensity measurement	Tonnes of CO_2e per £m turnover	**35.76**	99.07	149.29
	Intensity percentage change accounting for renewable energy 2019 compared with 2018	**(63.9%)**		(76.05%)

Our risk management approach

We have well-established risk management processes embedded within the business, which enable us to identify, evaluate, record, and monitor significant risks.

Taking an appropriate level of risk is an inherent part of any business, but in doing so we assess the likelihood and impact of each risk arising.

The diagram below sets out our approach and shows the various information flows. The responsibilities of key participants within the risk management process are summarised below:

Board of Directors/Audit Committee

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

Risk Committee/Operating Board

- Quarterly detailed discussion of significant risks;
- Understanding the business' exposure to risk;
- Supporting the implementation of the Company's risk management strategy;
- Identifying new and emerging areas of risk to which the business may be exposed; and
- Escalating significant matters to Main Board, via the Audit Committee.

Risk Manager

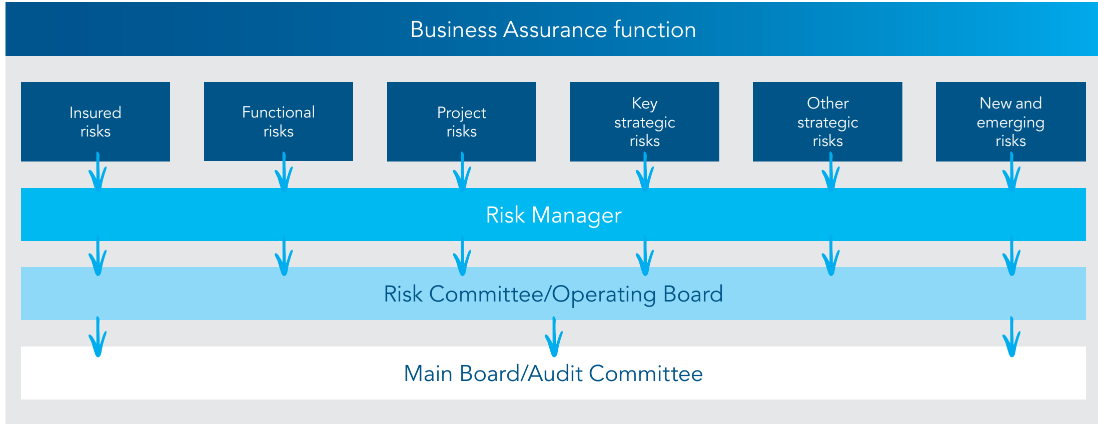
- Maintaining the corporate risk register;
- Supporting the Risk Committee to operate effectively; and
- Ensuring adequate insurance is in place, as determined by the Main Board.

Business Assurance function

- Providing independent internal audit coverage of the business, reporting findings to Audit Committee (a sub-Committee of Main Board);
- Oversight of the risk process; and
- Support for 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. Set out below are are those which are considered to present the most significant threat to the business' future development or performance. The position described below is a summary of the status at the date of the annual report.



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

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.

In disclosing our risk exposures this year, we have combined our reputational risks into one overarching risk. We have also combined the loss of production and loss of distribution capacity into a single risk of supply chain disruption. A new risk has been added regarding allergen-labelling legislation, since our shop-based production results in greater process risks than manufacturing on a single site. We have also included a risk relating to the impact of a pandemic on our operations and customer demand.

The risks are grouped according to their overriding theme, and are described along with key mitigations, the strategic pillars to which they are linked, and any 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 2022. 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's free trade arrangements, 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 whilst protecting essential maintenance of infrastructure, taking into account capital commitments to major investment programmes.
- Addition of temporary financing facilities, taking into account the Company's borrowing capacity.
- Drawing on the Company's insurance arrangements on the occurrence of an insured risk.

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

		Description
Organisational capacity	**Business transformation**	Our current business change programme continues, though it is now nearing completion. Expected timelines or savings may not be met, and there may be disruption to operations for our customers.
	Supply chain disruption	We continue to move towards more centralised production and larger distribution centres of excellence, with a greater reliance on technology. As a result, the impact of any operational failure on our shops and customers increases.
	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 the impact of Brexit may result in a shortage of available workforce, particularly within our shops and specialist IT roles. The former may be compounded by the relative complexity of our shop operations compared with other retailers.
Brand reputation	**Damage to reputation**	As the business' profile grows, so does the impact of any reputational damage due to a loss of customer trust. This could result from: • Sale of unsafe food; • Products not meeting customer requirements; and • Social media activity. Wider engagement with franchise partners and broadening the scope of our operations could result in a loss of control over our brand.
Technology	**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 operations.
	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.

Competitive supply chain First class support teams

Key mitigations	Change	Strategic pillars
All change activity has been phased, 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.	Decrease	Strategic risk
We have contingency plans for our supply sites, along with IT disaster recovery plans, which are tested against simulated scenarios. We have identified alternative supply sources for key ingredients and products, and periodically test these alternative routes. Our property insurers advise on the design of new buildings and conduct annual inspections of existing sites. We also believe that, to an extent, customers will choose an alternative product if their first choice is not available, reducing our dependence upon each individual product.	Increase	Operational risk
Our own contingency arrangements consider the implications of key systems or ingredients being unavailable. All third parties are vetted prior to engagement. Key supplier relationships are managed by our central procurement team.	No change	Operational risk
We offer attractive remuneration and benefit packages to reward our teams, along with training and development opportunities. Our annual employee opinion survey confirms high levels of engagement. We continually work towards streamlined and simplified processes and operations for our shop teams. We have developed new centralised recruitment processes, making the application journey easier for potential employees.	No change	Operational risk
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. Routine checks are carried out to confirm the integrity of our products and ingredients. We have robust crisis management procedures in place if required, and utilise third-party support where this is appropriate. All the processes described above are equally applicable to our franchise partners.	No change	Strategic risk
We actively monitor our networks and systems, including conducting regular penetration testing. Training and awareness sessions are provided across the business. Our approach to information security is closely monitored by the Board.	No change	Operational risk
Our development plans take into account the business' ambitions, to provide appropriate capacity. 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.	No change	Operational risk

	Description	
Regulatory compliance	**Allergen legislation**	Increased focus on allergens and associated legislation brings added complexity to our operations.
	Other legislation and taxation	New legislation may necessitate additional processes. 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 shops 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. This may give rise to increased costs.
External factors	**Impact of a pandemic**	A pandemic could have an adverse impact on our operations and the level of demand for our products.

Competitive supply chain First class support teams

Key mitigations	Change	Strategic pillars
We will provide full ingredient listings for our full sandwich range and all other relevant product lines during 2020. New processes and controls have been developed and tested in our shops to ensure we meet legal requirements. Extensive training will ensure that our teams are familiar with new working methods. Allergen complaints are investigated and action taken to address the root cause.	New	**Compliance risk**
We input into the development of new regulations via engagement with industry bodies. We have met the Government's sugar reduction targets across our range and are working towards meeting those for calories a year ahead of schedule. In order to reduce our impact on the environment, we have further developed our coffee cup recycling process, have replaced plastic carrier bags and cutlery, and are planning further plastic reduction. 95% of our electricity comes from renewable sources.	No change	**Compliance risk**
We have a system of due diligence 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 have Primary Authority arrangements in place for Food Safety, Health & Safety, and Fire Safety.	No change	**Compliance risk**
Developments continue to be monitored, with regular review by our Operating Board. Contingency arrangements have been developed where possible.	No change	**Strategic risk**
Our teams are preparing for different pandemic scenarios and following WHO preventative guidelines. We are maintaining a strong financial position in advance of potential disruption.	New	**Operational risk**

IAN DURANT
Chairman

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.

Appointed since

5 October 2011.

Independent

Yes

External appointments

Chairman of DFS Furniture plc.

Trustee of Richmond Parish Lands Charity.

ROGER WHITESIDE OBE
Chief Executive

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.

Appointed since

17 March 2008 (Non-Executive Director until 3 February 2013).

External appointments

Member of the Women's Business Council.

Non-Executive Director of Card Factory plc.

RICHARD HUTTON FCA
Finance Director

Richard qualified as a Chartered Accountant with KPMG and gained career experience with Procter and Gamble before joining Greggs in 1998.

Appointed since

13 March 2006.

External appointments

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.

HELENA GANCZAKOWSKI
Non-Executive Director

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

Appointed since

2 January 2014.

Independent

Yes

External appointments

Non-Executive Director of Croda International Plc.

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

Audit, Remuneration and Nominations Committee member.

What are you most proud of?

KATE FERRY
Non-Executive Director

Kate was appointed Chief Financial Officer of TalkTalk Group in October 2017. Prior to joining TalkTalk, Kate was a member of the Dixons Carphone plc Executive Committee, originally joining the Carphone Warehouse Group plc in 2010 as Corporate Affairs Director to facilitate the demerger from TalkTalk.

Kate began her career in audit with PricewaterhouseCoopers, qualifying as a Chartered Account before moving to Merrill Lynch as a Director within the retail sector equity research team, where she spent the next ten years.

Appointed since

1 June 2019.

Independent

Yes

External appointments

CFO of TalkTalk Group

Committee Membership

Chair of Audit Committee;

Remuneration and Nominations Committee member.

PETER MCPHILLIPS
Non-Executive Director

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

Appointed since

10 March 2014.

Independent

Yes

External appointments

Non-Executive Director of Browns Food Group.

Non-Executive Director of Jackson's Bakery Limited.

Committee Membership

Audit, Remuneration and Nominations Committee member.

SANDRA TURNER
Non-Executive Director

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

Appointed since

1 May 2014.

Independent

Yes

External appointments

Non-Executive Director of Carpetright plc.

Non-Executive Director of McBride plc.

Non-Executive Director of Greene King plc and Huhtämaki OYJ (from 1 May 2019).

Committee Membership

Chair of Remuneration Committee; Audit and Nominations Committee member, Senior Independent Director.

JONATHAN JOWETT
Company Secretary and General Counsel

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

Appointed since

12 May 2010.

External appointments

Member of the British Retail Consortium Policy Board.

Chair of the Trustees of the Percy Hedley Foundation.

Non-Executive Director of Newcastle Hospitals NHS Foundation Trust.

Committee Membership

Secretary to Board and all its Committees.

The Board is collectively responsible for the governance and long-term success of your Company

Dear shareholder,

I am delighted that this has been another excellent year for Greggs. The Board and I were particularly pleased that this strong performance meant we were able to reward our shareholders with a special dividend, our staff with a thank you bonus and former employees with additional funding for the pension scheme.

Our success depends on our people. We have spent a good deal of time in the past two years reflecting on the Company's culture, particularly in the light of the changes that have taken place in the organisation during the last five years. I believe that our strong, open and positive culture is an important factor in making a success of the many changes required to enhance our competitiveness and support the long-term sustainability of the business and the value of the brand. Our culture has been supported by a clear purpose, vision and strategy, which we outline in the following pages, and which is also reviewed in the strategic report on pages 4 to 33.

I am pleased to report that the Board has considered the views of our 25,000 employees in a number of ways, including extensive engagement by management and the innovation of Listening Groups attended by Non-Executive Directors. These groups will evolve with a format that works best for Greggs. The annual Employee Opinion Survey generated a notably high engagement score, indicating a pleasingly high level of emotional connection and commitment to the Company. We report on these activities in more detail below.

By combining customer insight with bright ideas from our employees, we have been able to promise real action on the issues that matter most to them. We recently launched The Greggs Pledge, in which we make ten commitments – aligned with the UN Sustainable Development Goals – that cover the biggest positive contributions we can make to our planet and people.

The Board is collectively responsible for the governance and long-term success of your Company. This is vital for allowing and encouraging Greggs management to flourish and deliver success. This year we are particularly aware that expectations around what companies should report were significantly updated in the 2018 UK Corporate Governance Code, which we complied with throughout 2019, and we have updated our approach accordingly.

In this report, from page 36 to 43, our aim is to provide insight into how the Board fulfils its stewardship responsibilities. This is followed by our Section 172 Companies Act statement. I continue to welcome feedback from all our stakeholders on how we are doing in terms of our governance and where we might improve our approach.

Thank you for your continued confidence in Greggs.

Ian Durant
Chairman
3 March 2020

Our Purpose:
To make great tasting, freshly prepared food available to everyone

Greggs is both a retailer and a manufacturer selling high quality, freshly prepared food at affordable prices in our shops across the UK. We also produce around 70 per cent of our food. Our Company purpose, as defined during the strategic review that was initiated when Roger Whiteside became Chief Executive in 2013, reflects these two elements of our business model. By celebrating our commitment to taste, freshness and affordability, we motivate our colleagues to go to work every day and give the best possible service to our millions of customers.

Our Vision:
To be the customers' favourite for food-on-the-go

In 2013, we set out to be 'a winning brand in the food-on-the-go market' as we transitioned from being a traditional baker. Our vision, like our products and our customers' demands, has evolved, and now Greggs aims to be the 'customers' favourite for food-on-the-go'. This gives us all something to work towards in a competitive market. However, we want to be the market leader while also being a good corporate citizen. By setting new and stretching social and environmental targets, and seeking external accreditation for our activities, we believe we will give our customers even more reasons to choose Greggs.

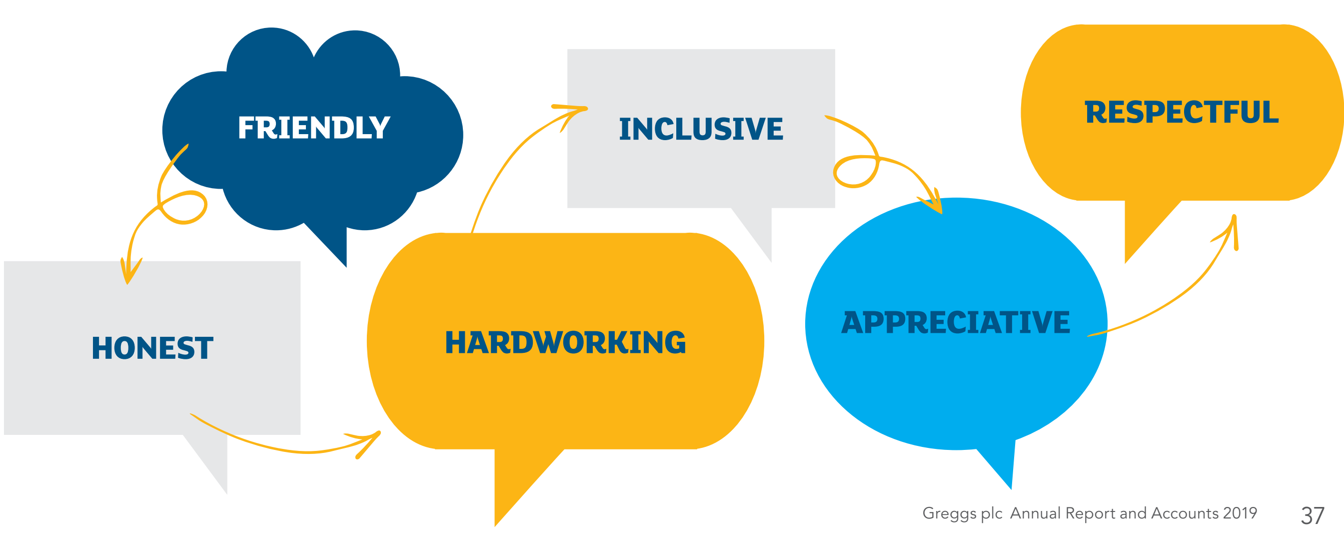
Our Values:
"Being enthusiastic and supportive in all that we do, open, honest and appreciative, treating everyone with fairness, consideration and respect."

To support our purpose and vision, we have held true to the same set of values for over 15 years, which commit us to "being enthusiastic and supportive in all that we do, open, honest and appreciative, treating everyone with fairness, consideration and respect".

In 2018 we used the opportunity presented by significant changes to our manufacturing footprint and the introduction of new systems to review our Company values. The Board believes these values are the cornerstone of Greggs culture and success and wanted to ensure that they are still relevant and clear to all of our team. As part of the review, some of the Non-Executive Directors joined over 700 colleagues at the annual management conference in January 2019 to hear their views. We followed that up with a number of sessions throughout the year, including a 'hackathon' style challenge, where a smaller number of teams collaborated to capture the ongoing essence of Greggs.

We have concluded that our culture is alive and thriving but could benefit from being expressed more clearly.

Being Greggs means that we are:



Employee engagement

The Board's communication channels with staff are well established and extensive. Through collective visits and meetings, informal shop visits and factory floor walks, the views of the teams operating in shops and bakeries are well known. The Company recognises the benefits of union membership and representation. The Chief Executive and the People team provide the Board with regular updates on discussions with unions as well as the formal collective bargaining procedures which take place during annual pay negotiations.

We have a well-established communication channel with our union colleagues across both retail and supply chain with a key series of meetings happening throughout the year. Our relevant senior management and people teams meet locally with union representatives from our shops and across the supply chain in order to ensure that discussions can be held and decisions can be made at local levels. These are known as our Joint Consultative Committees and they are imperative forums for our senior management teams in the business to hear the views of our people. These meetings are held every quarter. The JCCs then feed into our National Partnership Forums which are again held every quarter with a forum held in both retail and supply. These forums are jointly chaired by our Head of People and a Head of Retail/Supply Chain and regularly have guests who will join the meetings to listen to the views of our colleagues on pertinent business issues.

Our Non-Executive Directors have also attended these meetings in order to listen to the views of colleagues. It is at these meetings that there is true partnership and interaction with our colleagues and implementation, problem solving and development work will take place. Finally the Partnership Forums will then feed into the Greggs Negotiating Committee (GNC) where 16 union representatives from around the business meet and we are joined by a full-time official from the union. The GNC meets at least six times per year and, at each meeting, our Chief Executive attends to provide a business update and takes questions and views from our colleagues. As well as this on a rotation basis a member of the Operating Board attends each of the sessions and our Chairman and Non-Executive Directors have also attended this meeting to get feedback.

During the Company's annual management conference, the business plan for the coming financial year is discussed with around 750 colleagues. The Chairman, and where possible Non-Executive Directors, attend these sessions and mix informally with staff from our shops, supply chain and head office, listening to their views on the Company's plans for the coming year. The less formal activities undertaken by all Board members are complemented by the Company's value of honesty, and the expectation that colleagues are always willing to share their opinions with the Board. As well as these opportunities to speak directly to Board members, a weekly bulletin is sent to all shop staff and a quarterly bulletin to all bakery employees to ensure that they feel fully informed about the business's current aims. The annual Employee Opinion Survey, which has an excellent rate of return, is another opportunity for all staff to express their views.

We recognised that we could continue to build on the existing channels for engagement, for example when Ian Durant attended a Greggs Negotiating Committee meeting in 2018, and in 2019 instigated a series of 'Listening Groups'. The purpose of these sessions is to prompt Board debate and allow informed discussion. The first of these was attended by Peter McPhillips, who heard from a number of experienced shop managers about some of the day-to-day challenges that they face, for example in relation to the recruitment, training and induction of new team members. In the second session Ian Durant and Helena Ganczakowski led a discussion with a group of head office staff on the work of the Remuneration Committee and how executive remuneration is aligned with wider pay policy. Feedback from the sessions has been good, with attendees appreciating the opportunity to hear from members of the Board other than the Chief Executive and Finance Director, and more are planned in 2020. Feedback from the Listening Groups and all engagement with colleagues is shared with all Board members and was debated as part of the 2019 Board evaluation.

750

Colleagues present at the Company's annual management conference to discuss the business plans.

Investing in and rewarding Greggs workforce

The Board recognises that reward plays a critical role in colleague engagement and is fundamental to the success of the Company. As a rule, the Company strives to ensure that the rate paid to its shop staff is ahead of the National Living Wage, and this is not restricted by age. Greggs has been running a profit-sharing scheme for decades, in which 10 per cent of the annual profits are shared with employees. Our Sharesave Plan enables colleagues to save money on a regular basis to buy shares at a discounted rate. In 2019, following a year of exceptional performance, the Board approved the allocation of a further £7 million towards a thank you payment for every employee, contingent on service during the year, up to a maximum of £300 each.

Next Generation Greggs

As we set out earlier in the Annual Report on page 9, we will continue to open new shops in food-on-the-go locations. However, we believe growth will also come from adapting to changing customer demand by developing our food offering, opening up new channels like home delivery and giving customers eating opportunities at all times of the day.

Whilst the Next Generation Greggs strategy presents significant opportunities, it is not without risk as we seek to partner with new organisations and develop new systems to do more. The market we serve is growing and we believe taking these risks will allow us to grow with it and build market share. As we innovate and develop our offering with the market, whilst maintaining our core retail strength, our model will continue to be sustainable for the future.

Chairman's engagement with shareholders

The Chairman takes responsibility for ensuring that key shareholders are aware of and comfortable with the Board's approach to governance, networking widely across the institutional shareholder population, and meeting with larger shareholders. In 2019, Ian accompanied Sandra Turner in her role as chair of the Remuneration Committee as we consulted on the proposed new Remuneration Policy that we will be asking shareholders to approve at the AGM in May. Ian also met several key shareholders to discuss broader governance issues and the Greggs approach.

Following key announcements the anonymised views of shareholders are reported to the Board by Hudson Sandler, the Company's financial communications consultants.

Details of the rest of the Board's engagement with stakeholders more broadly are set out in the Section 172 Statement on pages 42 and 43.

Given this existing track record of employee engagement by all Board members, during 2019 we did not adopt the option in paragraph five of the UK Corporate Governance Code ('the Governance Code') for a single director to be responsible for this important area. We also feel that the very good relationships that the Company has with its recognised union representation means that the creation of another 'panel' is not necessary. The whole organisation is so clearly orientated towards people that we want every member of the Board to be engaging with colleagues, rather than asking just one to undertake this responsibility. In order to help co-ordinate this, the Board has now designated Peter McPhillips as the responsible Non-Executive Director, with effect from and assuming his re-election as a Director at the AGM on 13 May 2020.

In 2019, 94 per cent of employees responded to our annual Employee Opinion Survey, which we think is a superb return from over 2,000 locations from Aberdeen to Bournemouth and almost everywhere in between. We were really pleased to see that our engagement score, which measures our colleagues' emotional connection and commitment to the Company, had increased by 2 per cent since 2018, and now stands at 84 per cent.

Division of responsibilities

The Board considers that the Chairman and all of the Non-Executive Directors are independent. Full details are set out below, and remuneration is addressed in the Remuneration Report. Away from the boardroom, the Chairman communicates regularly with the Non-Executive Directors both collectively and individually, giving them plenty of opportunity to express their opinions and raise any concerns that they may have.

Sandra Turner is the Senior Independent Director. As well as chairing the Remuneration Committee, Sandra chairs at least one meeting of the Non-Executive Directors annually, without the Chairman being present. There is a clear division of responsibility between the Chairman and the Chief Executive, and terms of reference for each of the Board committees are in place having been reviewed and revised to ensure they meet the requirements of the Code. The precise responsibilities of the Senior Independent Director are set out in a role specification that has been approved by the Nominations Committee and the Board.

Board meetings are well attended, as the table below shows:

Attendance	Main Board	Audit Committee	Remuneration Committee	Nominations Committee
Ian Durant	6/6	–	–	4/4
Roger Whiteside	6/6	–	–	–
Richard Hutton	6/6	–	–	–
Helena Ganczakowski	6/6	4/4	5/5	4/4
Kate Ferry*	3/3	2/2	3/3	3/3
Peter McPhillips	6/6	4/4	5/5	4/4
Sandra Turner	6/6	4/4	5/5	4/4
Allison Kirkby**	3/3	2/2	2/2	1/1

* K Ferry appointed 1 June 2019.
** A Kirkby resigned 13 May 2019.

All Directors have access to the Company Secretary, whose appointment and removal is one of the matters reserved to the Board.

Board composition succession and evaluation

The Nominations Committee's responsibilities are set out in written terms of reference, available on the Company's website. Its primary responsibility is to ensure plans are in place for orderly succession to the Board and Operating Board. The Board Chairman is chair of the Committee, and all Non-Executive Directors are members. The Chief Executive is a regular attendee at meetings, and from time to time the Finance Director is also invited.

During the year, the Nominations Committee oversaw the appointment of Kate Ferry as an independent Non-Executive Director and Chair of the Audit Committee, taking over from Allison Kirkby, who stepped down from the Board following the AGM in May. Following the selection of a suitable search consultancy using an informal tender process, the preparation of a role description and interviews with candidates, a final recommendation was made to the Board for her appointment.

The Nominations Committee has also been reviewing the tenures of all Directors and has prepared a succession timetable to cover the coming five years. The Committee is currently supported by Heidrick & Struggles out of its London office. Based on a recommendation from the Nominations Committee, each of the Directors offers themselves for re-election.

The Board receives regular updates from the Chief Executive on the performance of the Operating Board, and a succession plan is tabled so that the Board can see the talent pipeline for each functional area.

Board evaluation and focus

The Board conducts an annual evaluation of its activities. As the last externally-facilitated evaluation was in 2018, for 2019 the Board resolved to undertake a less formal, yet nonetheless robust, evaluation involving a series of strategic, operational and governance questions used to facilitate discussion. As a result, the Board has agreed that in 2020 its focus should be on succession planning to include a refreshed skills analysis, continuing to develop stakeholder engagement plans and the strategic move to Next Generation Greggs, as set out at the beginning of this Annual Report. The Board has also committed to monitor plans to improve allergen labelling, given that the provision of information and protection to customers with allergies has been identified as a key risk.

Women in management

The Board as a whole, rather than the Nominations Committee, monitors the gender balance in the Company. 69.0 per cent of our employees are women, with female workers largely within retail shops. We have a strong representation of women at the most senior level, with three of the five Non-Executive Board Directors being female, placing us 22nd in the FTSE250. At Operating Board level, excluding the two Executive Directors, two out of seven are women and approximately 44 per cent of roles reporting into an Operating Board director are held by women. The Company is currently running an extensive Women's Development Programme, aimed at supporting and encouraging females to reach the highest levels of management. Our Chief Executive sits on the Women's Business Council and we are pursuing improvement in diversity through participation in the National Equality Standard. Further information on our statutory gender reporting can be found on page 27. →

3/5

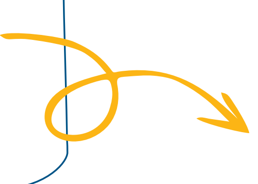
Non-Executive Directors are female.

Audit, risk and internal control

The report of the Audit Committee on pages 48 to 55 contains details of the Board's approach to audit, risk and control and should be read in conjunction with the risk management disclosures on pages 28 to 33, incorporated by reference into this governance report. →

Remuneration

The Company's response to the Code's requirements on remuneration is set out in the remuneration report on pages 56 to 83.



Section 172 Companies Act 2006

This statement sets out how the Directors have approached and met their responsibilities under section 172 Companies Act 2006. To avoid repetition of many of the matters reported earlier in the governance report, particularly in relation to employee engagement, those comments should be considered as incorporated by reference into this statement. This report is presented in compliance with the Companies (Miscellaneous Reporting) Regulations 2018 and the Governance Code. The Directors have a history of regular engagement with stakeholders, including colleagues, customers, suppliers and shareholders. As was reported last year, the Board undertook some analysis of its key stakeholders, and has since been keeping a log of participation in order to be able to report to shareholders. A number of examples of interaction with stakeholders are set out below.

Customers

Ian and Helena attended a working session with the whole customer and marketing team, in order to better understand Greggs marketing philosophy and sources of customer insight, and how these inform the marketing strategy. To bring it to life, the team presented a full Vegan Sausage Roll case study where every team member talked through their role in making the integrated campaign such a success.

Learnings

Seeing how customer insight is gathered, interpreted, and translated into a marketing campaign enables Directors clearly to see the return on the marketing investment. It links directly to the Company's vision to be the 'customers' favourite for food-on-the-go'. Understanding the customer view has helped the Non-Executive Directors scrutinise and offer support to Next Generation Greggs.

People

As mentioned in the governance report, a rolling programme of Listening Groups has commenced, attended by at least one Non-Executive Director.

Learnings

A key strand of the Company's sustainability strategy is to ensure it is a great place to work. Listening to colleagues is crucial for Directors to understand what workforce plans need to be in place, and the challenges faced by people at every level of the organisation.

Women

Ian, Allison (before she stepped down from the Board) and Helena all attended sessions of the Women's Development programme, sharing their executive and non-executive career experiences as part of encouraging women to attain the highest levels of management.

Learnings

These sessions give effect to the Board's policy on diversity and encourage female colleagues to achieve their full potential. The Directors are able to see the female talent within the Company and to form a view on the quality of succession planning.

Shop visits

Directors visit shops as part of formally organised visits, usually accompanied by a senior member of the Retail Management team, and are able to talk to customers and staff. Such visits also include opportunities to compare product offerings and retail operations in competitors' shops. Directors visit shops informally and unaccompanied on a regular basis, providing feedback to management on both positive and negative findings from their visits.

Learnings

This gives Directors the opportunity to see how the Company's people policies operate at shop floor level. It also allows Directors to understand, for example, the impact that operational changes needed to effect legal requirements can have on the working life of shop colleagues.

Suppliers

The Commercial function holds regular 'top-to-top' meetings with key suppliers. The Chief Executive has a standing invitation to attend such meetings. Peter attended a meeting with the Company's pork supplier, to understand its strategic objectives, Greggs role as a key customer, and the market for pork products generally.

Learnings

The Company spends around 24 per cent of its turnover on purchasing ingredients. Hearing from key suppliers about the challenges they face allows Directors to better understand the risks within the supply chain.

Production

The Company usually organises at least one Board meeting per year at a production and/or distribution centre, where Directors are able to see new and old production lines in action and experience the changes made as part of the centralisation programme that has been running for the last five years. The Directors also get the opportunity to meet shop floor production operatives and management to hear of the challenges they face and what they consider makes Greggs a great place to work. We regret that a Board schedule change prevented this from happening in 2019, but plan to schedule such a meeting in 2020. Separately, given his executive experience in food manufacturing, Peter has visited a number of production centres and attended a number of supply chain meetings to support the team in the execution of the Supply Chain strategy.

Learnings

Greggs is unusual for a retailer in that it also produces around 70 per cent of the food it sells. Visiting production facilities helps the Directors to appreciate the production and logistical complexities required to make daily deliveries to over 2,000 shops.

Shareholders

Ian and Sandra have conducted an extensive consultation exercise with key institutional shareholders as part of the formulation of the new Remuneration Policy which is due to be considered by shareholders when they meet at the AGM on 13 May 2020. The consultation exercise also included communication with and feedback from key proxy agencies, including ISS, Glass Lewis and the Investment Association. Roger and Richard have regular meetings with institutional shareholders, both as part of an organised roadshow following half and full year results announcements, and in response to ad hoc requests from current and prospective national and international institutional investors. The AGM is well attended by around 70 individual shareholders. Tea and coffee are served before the meeting, and Directors and senior management mingle with attendees, who also have the opportunity to visit a number of stands providing information about, for example, the Company's sustainability activity and the work of the Greggs Foundation. After the formal meeting, attendees enjoy a sit-down Greggs buffet lunch which includes old favourites and new product offerings.

Learnings

In 2019, this included understanding how the Company's executive remuneration policy would be received by a number of major institutional shareholders and commentators.

Pensioners

The interests of members in the closed defined benefit pension scheme are regularly considered by the Board. Richard has met the defined benefit pension trustees, and he maintains a strong working relationship between the Company and the trustees. There is also an annual informal meeting of former senior managers, now enjoying retirement, who are briefed on Company performance. It is proposed that pension arrangements for current employees will be the subject of a future Listening Group. As is referred to in the Finance Director's report on page 22, the Company made a one-off payment of £5 million into the defined benefit scheme to assist the scheme's trustee in its preparations for a buy-out of liabilities when the funding level permits.

Learnings

The pension trustee is a significant creditor of the Company, in the sense of the defined benefit promise that has been made to employees. By working with the trustees, the Company aims to get the scheme to a state of independence in the next 10-15 years.

These items are given as examples of the Directors' application of the principles of s172 Companies Act across the year, and is not an exhaustive list. With ongoing guidance from the Company Secretary and Board advisers, and by networking and monitoring developments in stakeholder engagement and the other aspects of the s172 duties, the Board will continue to develop its approach.

Other disclosures

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 2018 and 28 December 2019 are set out in the Directors' remuneration report on page 81. Details of the Directors' share options are set out in the Directors' remuneration report on page 79.

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 their authority, the Directors have had regard to their statutory and other duties to the Company.

Substantial shareholdings

At 3 March 2020 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%
Blackrock Inc	5,093,306	5.03%
Standard Life Aberdeen plc	4,215,395	4.167%
Norges Bank	3,037,358	3.022%

Additional information

- The information set out within the governance report in pages 36 to 43 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 27.

Authority to purchase shares

At the AGM on 21 May 2019, the shareholders passed a resolution authorising the purchase by the Company of its own shares to a maximum of 10,100,000 ordinary shares of two pence each.

That authority had not been used as at 28 December 2019.

The authority remains in force until the conclusion of the AGM in 2020 or 20 August 2020, whichever is the earlier. It is the Board's intention to seek approval at the 2020 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 two pence each. As at 3 March 2020, 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 reasonably require to show the right of the transferor to make the transfer. In respect of shares held in uncertificated form the Directors may only refuse to register transfers in accordance with the Uncertificated Securities Regulations 2001 (as amended from time to time);
- Under the Company's code on dealings in securities in the Company, persons discharging managerial responsibilities and some other senior executives may in certain circumstances be restricted as to when they can transfer shares in the Company;
- There are no agreements between shareholders known to the Company which may result in restrictions on the transfer of shares or on voting rights;
- Where, under an employee share plan operated by the Company, participants are the beneficial owners of shares but not the registered owner, the voting rights are normally exercised by the registered owner at the direction of the participant;
- The Company's articles of association may only be amended by special resolution at a general meeting of the shareholders;
- The Company's articles of association set out how Directors are appointed and replaced. Directors can be appointed by the Board or by the shareholders in a general meeting. At each Annual General Meeting, any Director appointed by the Board since the last Annual General Meeting must retire from office but is eligible for election by the shareholders. Furthermore, the Board has resolved that, in line with Corporate Governance Code (2018 revision), 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 buy back shares in the Company. At each Annual General Meeting, resolutions are proposed granting and setting limits on these powers;
- The Company is not party to any significant agreements which take effect, alter or terminate upon a change in control of the Company, following a takeover bid; and

- There are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) that occurs because of a takeover bid. Details of the Directors' service agreements and terms of appointment are set out in the Directors' remuneration report on pages 56 to 83. 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.

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.

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 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 4 to 33, together with the statutory accounts themselves, the Board duly considers the annual report and accounts, taken as a whole, is fair, balanced and understandable, and provides the necessary information for shareholders to assess the Company's performance, business model, and strategy.

A statement of Directors' responsibilities in respect of the preparation of accounts is given on page 85. A statement of auditor's responsibilities is given in the report of the auditor on page 92.

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 99). The Board's viability statement made in accordance with Code provision C.2.2 can be found on page 29.

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.

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

3 March 2020

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

Dear Shareholder

As Chairman of the Audit Committee, I am pleased to present the report of the Audit Committee for the 52 weeks ended 28 December 2019.

I joined the Committee in June 2019 and spent time with the Finance Director and his team, internal and external audit and other members of senior management, in order to understand the key matters Greggs faces. I am pleased to see that 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.

In this report, we aim to share some of the Committee's discussions from the year, providing insight regarding the role of the Committee, 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. 2019 saw the introduction of IFRS 16 Leases and these are the first full accounts prepared in accordance with this standard. It has had a significant impact on the Company's accounts as described in more detail both within this report and in the Notes to the accounts but I am very pleased that the implementation has been executed successfully.

We expect fewer changes in 2020 in financial reporting terms but key topics for consideration will be climate-related and workforce-related reporting and the need to prepare for new reporting requirements coming into force by 2022. As noted in the body of my report we will be conducting an audit tender during 2020 so this will also be a key matter for the Committee during the year.

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. I will be available at the AGM to answer any questions about our work.

Kate Ferry
Chair of the Audit Committee
3 March 2020

Composition

The Audit Committee is comprised of the following:

Kate Ferry (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. Allison Kirkby retired from the Board at the Annual General Meeting in May. Kate Ferry was appointed as Director and Audit Committee Chair on 1 June 2019.

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 34 and 35 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 Kate Ferry has recent and relevant financial experience.

Role and responsibilities

The Terms of Reference of the Committee can be accessed at: corporate.greggs.co.uk/investor-centre/corporate-governance/Company-documents.

The key responsibilities of the Audit Committee are:

- ensuring that the accounting and financial policies of the Company are proper and effective;
- assisting the Board in fulfilling its oversight responsibilities by monitoring the integrity of the accounts and information published by the Company and reviewing significant financial judgements contained in them;
- advising the Board on whether it believes the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy;
- reviewing the internal financial controls and the Group's approach to risk management;
- overseeing whistle-blowing arrangements;
- monitoring compliance with the Listing Rules and the recommendations of the Governance Code;
- overseeing 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 are given on page 40.

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 an audit partner independent of the partner responsible for the audit.

Financial reporting

In 2019 the Audit Committee reviewed the 2018 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 28 December 2019 are as follows:

Area of focus	Action taken
Accounting for leases	
IFRS 16 Leases became effective for 2019 and was adopted by the Group on 30 December 2018. As a result of this, lease liabilities, representing the obligation to make lease payments, are recognised on the balance sheet together with corresponding right-of-use assets. In the income statement rent costs have been replaced by a straight-line depreciation charge on each right-of-use asset and an interest charge that reduces over the lease term. At the end of 2019 the Group has recognised right-of-use assets of £272.7 million and lease liabilities totalling £275.7 million. Charges to the income statement of £50.8 million in respect of depreciation and £6.6 million in respect of interest were recognised. The Group has applied the modified approach to transition whereby initial right-of-use asset values equal lease liabilities – comparative information has therefore not been restated.	The Committee considered the accounting requirements of IFRS 16 when determining the accounting policies to be adopted in respect of lease accounting, both on implementation and on an ongoing basis. Particular attention was paid to the judgements which are required to value lease liabilities, namely the adoption of an appropriate discount rate and the determination of lease term. Details of the approach are set out in the accounting policies on pages 99 and 102. The Committee considers that the judgements made are appropriate to the Group's particular circumstances. They were discussed with the external auditor in advance of their adoption. The Committee continues to review and monitor developments in this area to ensure that judgements made are up to date and remain valid and that the approach adopted is still appropriate to the Group's circumstances.
Understanding and treatment of exceptional items	
The accounts include exceptional items in the current year. Total exceptional costs of £5.9 million were incurred in 2019 (2018: £7.2 million). This relates to the restructuring of Supply Chain operations (2018: £5.9 million) and in 2019 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. The prior year also included an exceptional charge of £1.7 million in relation to the gender equalisation of guaranteed minimum pensions (GMP) payable from our defined benefit pension scheme. 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, £0.4 million was credited to exceptional items in 2018, being the release of prior years' provisions relating to the settlement of various property transactions.	The Committee considered the accounting requirements of IAS 1 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; ii). in 2018, the equalisation of GMP payable from our defined benefit pension scheme; and iii). the provision of £7.0m in 2019 for the special 'thank you' payment made to employees in January 2020. 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 2019 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 2019 related to the supply chain investment programme and those incurred in 2018 related to GMP equalisation but not the charges in 2019 related to the 'thank you' payment to employees.

Area of focus	Action taken
Accounting for defined benefit pension schemes	
The determination of the defined benefit pension obligation depends on the selection of certain assumptions including the discount rate, inflation rates and mortality rates. The net liability held in relation to defined benefit pension schemes at the end of 2019 was £0.6 million (2018: £8.4 million). There was an exceptional charge to the income statement in 2018 of £1.7 million. The UK High Court ruled on 26 October 2018 in respect of the gender equalisation of guaranteed minimum pensions (GMPs) for occupational pension schemes. The judgment 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. The ruling is expected to be appealed and so 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 28 December 2019. The resulting charge to the income statement was treated as an exceptional item in 2018 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.	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. The Committee continues to monitor legal developments in respect of GMP equalisation as discussed further in Note 4.
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.

Financial reporting continued

Area of focus	Action taken
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 46 of the Directors' report.
Viability	
The Board is required to consider the period over which it is 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 Britain leaving the EU's free trade arrangements 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 29 of the strategic report.

The Committee also considered other key accounting issues and related disclosures in the Group's accounts as follows:
– whether any changes in accounting policy were required following changes in the business or in legislation;
– whether the Company's tax policy remains appropriate;
– the impact of changes in accounting standards and their relevance, if any, to the Company; and
– reports from the Company Secretary and Finance Director which assess the Company's compliance with the Listing Rules.

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, design, and 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

The Committee's policy on auditor appointment is to consider annually whether to conduct an audit tender for audit quality or independence reasons. KPMG has been the Company's auditor for more than 20 years. In order to comply with the Statutory Audit Services for Large Companies Market Investigation (Mandatory use of Competitive Tender Process and Audit Committee Responsibilities) Order 2014 the Company is required to change audit firms no later than the conclusion of the 2020 audit, which it plans to do.

The Audit Committee has put in place a process to conduct an audit tender for the appointment of a new auditor. This will be carried out during the summer of 2020 such that a recommendation can be made to the Board in the autumn, thereby giving the preferred firm the opportunity to shadow KPMG (assuming they are reappointed) for the 2020 audit, before being recommended to shareholders for appointment at the 2021 AGM.

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 reappointment.

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 2019 for the Group but the Audit Committee is satisfied that its objectivity was not impaired by such work.

In 2019, the charge to the income statement in respect of non-audit fees paid to KPMG LLP and related KPMG operations amounted to £15,000 (which is 9 per cent of the audit fee for the year) and related to audit of turnover statements required by shop landlords.

In 2019 there was also a charge to the income statement of £20,000 in respect of the audit of the 2018 accounts, which was agreed with KPMG after the completion of the 2018 audit.

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 within the Business Assurance function, and subsequent review and oversight 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. Three reports were made during the year, relating to staff behaviour and product theft. All events were reported directly to the Chair of the Audit Committee by telephone. All instances have been investigated and appropriate action taken to resolve the concerns.

The Company's whistle-blowing policy was reviewed and updated during the year, to ensure that it complies with latest best practice. The revised policy was approved by the Audit Committee, and has been shared across the business via our intranet page.

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 28, and has been reviewed by the Committee to confirm its appropriateness in light of the risks identified. The key areas that the Committee has specifically considered are as follows:

Area of focus	Action taken
Financial reporting and control	Judgemental areas in the accounts are considered by the Committee, to provide challenge to the process. The Committee has considered the Company's approach to lease accounting requirements under IFRS 16, and associated disclosures. The Committee also inputs into the process to confirm the business' viability and going concern status.
Corporate tax compliance	Following a review by the Operating Board, the Audit Committee approved the Company's tax strategy for publication.
Business transformation	The Committee continues to receive reports on the Company's transformation programme, including the implementation of SAP into manufacturing sites and payroll systems.
External auditor appointment	The Committee has approved the proposed tender process for the appointment of a new external auditor.
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 and levels of risk.
New and emerging risks	The Audit Committee reviews areas of new and emerging risk as identified by the business via the Risk Committee. It raises any other areas which it believes should be documented within the Company's risk register.
Review of principal risks and uncertainties	The statement of principal risks and uncertainties was prepared by the Risk Committee, based on its discussions during the year. The statement was then considered and approved by the Audit Committee, ahead of its inclusion in the annual report.

Internal Audit

The work of the Internal Audit function is set out in more detail within the principal risks and uncertainties statement on pages 28 to 33 of this annual report. The team is led by the Head of Business Assurance, supported by the Risk Manager, the Data Protection Analyst and 16 auditors. The majority of the Audit team works 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 colleague 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.

Kate Ferry
Chair of the Audit Committee
3 March 2020

We are aiming to continue with our transparent and open approach towards remuneration at Greggs.

Dear shareholders

I am pleased to present our remuneration report for 2019.

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 three-year **remuneration policy report**, which sets out a summary of the Directors' remuneration policy for all Directors of Greggs. This is our new policy for the three years commencing 2020, that will be tabled at our AGM to be held on 13 May 2020, to be formally agreed by shareholders by way of a binding vote.
- Our **annual remuneration report**, split into two sections that set out:
  - how our remuneration policy will be implemented in 2020 in line with our new proposed three-year policy; and
  - how our remuneration policy was implemented in 2019. 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 28 December 2019.

The annual remuneration report will be subject to an advisory shareholder vote at the 2020 AGM.

During 2019, the Committee undertook an extensive review of the current policy, taking into close account the fact 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. As well as this, the Committee has continued to assess the effectiveness of overall levels of remuneration and the alignment with business strategy, overall workforce remuneration, emerging market practice, the revised UK Corporate Governance Code and the best practice expectations of investors and others.

The Committee has also monitored and reviewed the effectiveness of the current remuneration policy since it was first approved by shareholders at the 2017 AGM and 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 new three-year 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 remuneration and specific culture. It ensures a significant proportion of pay is delivered in shares to provide alignment with investors and incorporates best practice features, including a two-year post-vesting holding period for PSP awards.

Our approach to remuneration has been developed against the backdrop of exceptional performance in delivery of the strategy. 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 six years since 2013 our Company-managed shop like-for-like sales have grown by 29.2 per cent and pre-tax profit (excluding exceptional items) has increased by 130 per cent, reflecting sales growth combined with significant savings arising from structural changes and investment in better processes and systems. This is reflected in strong EPS growth (averaging 21 per cent p.a. since 2013).

Our new remuneration policy continues to strengthen the alignment between Executive Directors and shareholders to keep the team focused on long-term, sustainable value creation for all stakeholders. We also believe that the growth of the business and the performance of our senior team have made them potentially attractive targets for our competitors and we need to ensure that Greggs is able to retain and recruit the senior talent needed as the business continues to grow. To mitigate this risk, we are proposing some changes to our remuneration policy. These changes are appropriate to ensure that the team running our business is appropriately incentivised going forward, whilst at the same time ensuring that the policy is sufficiently flexible to remain applicable over the next three-year policy period.

Greggs carried out a full consultation with major institutional shareholders and proxy advisers with regards to the changes to the policy. We are grateful for the time taken to consider our proposals and for the feedback received. The general message from most of those consulted was that they were supportive of the direction of travel. In light of comments received, we made a number of amendments to our proposals before reaching our final conclusions on the precise shape of the new policy.

The main changes to the policy are outlined below:

Annual Bonus The current policy allows for a maximum individual policy limit of 125 per cent of salary for the Chief Executive and 90 per cent of salary for other Executive Directors. It is proposed that the individual policy limit will be increased to 150 per cent of salary for the Chief Executive and 125 per cent of salary for the other Executive Directors. For 2020, however, bonuses will be limited to 125 per cent of salary for the Chief Executive and to 100 per cent for the Finance Director. Under the current policy, on-target performance currently delivers a 60 per cent pay-out; this will be reduced to no more than 50 per cent of the maximum bonus potential. A formal discretionary override will be included in the policy, allowing the Remuneration Committee to apply full discretion over the formulaic outcomes of incentive schemes. The trigger events for the recovery/withholding provisions have been extended to cover corporate failure and reputational damage.

PSP The current policy allows for PSP awards of 115 per cent of salary for the Chief Executive and 95 per cent of salary for other Executive Directors (150 per cent in exceptional circumstances). It is proposed that the new policy will provide for awards of 150 per cent of salary for the Chief Executive and 125 per cent of salary for other Executive Directors (with awards up to 150 per cent possible in exceptional circumstances). It is proposed that for 2020 the Chief Executive will receive an award worth 150 per cent of salary with the award for the Finance Director being set at 110 per cent of salary. We intend to increase the Finance Director's award to 125 per cent of salary in 2021. Similar to the annual bonus scheme, a formal discretionary override will be included in the policy and the recovery/withholding provisions have been extended to cover corporate failure and reputational damage. We also specify in the policy that dividend equivalents are payable in respect of any vested shares, in line with the PSP rules.

The Remuneration Committee is aware that the changes outlined above incorporate increases to reward opportunities under both the annual bonus scheme and the PSP, and that there are understandable sensitivities around increasing executive pay levels in the current political, economic and regulatory climate. However, the Committee wishes to ensure that the Executive Directors are appropriately rewarded for their contributions to the next stage of the Company's growth, and we have been concerned that the pay opportunities under the existing policy no longer reflect what is appropriate or competitive for the leaders of a successful

Remuneration policy continued

FTSE 250 company. We believe that the revised award levels are required to ensure that the policy is fit-for-purpose for the next policy cycle and will ensure that Executive Directors are appropriately incentivised to deliver and drive the business forward and are rewarded for success. As noted above, for 2020 we are not increasing all elements of pay for the Chief Executive and the Finance Director to the maximum levels permitted under the new policy, but we wish to retain a suitable level of headroom. It is also important that we have the right structure in place as part of our succession planning processes. Should we need to recruit externally at senior levels during the policy period, we would like to have headroom in relation to the annual bonus and PSP opportunities in order to be sufficiently competitive in the market.

Even taking into account the proposed increases, we believe that when compared against the market more broadly, the pay for the Executive Directors remains at below mid-market levels and total remuneration is positioned appropriately, thus demonstrating an ongoing focus on restraint.

In connection with the proposed increase to the PSP award levels under the proposed policy, there will be a resolution at the 2020 AGM to seek shareholder approval to increase the individual limits in the PSP rules from 115 per cent of salary (150 per cent of salary in exceptional circumstances) to a limit of 150 per cent of salary for the Chief Executive and 125 per cent of salary for other Executive Directors (with an exceptional circumstances limit for other Executive Directors of 150 per cent of salary).

Salary There are no proposed changes to the policy with regards to salaries for our Executive Directors in that we will continue to pay salaries that will ensure that we attract and retain high-calibre individuals in order to promote the long-term success of the business. In terms of the implementation of the policy, we are proposing a two-stage increase to the salary of the Finance Director, as set out below.

Share retention guidelines Where an Executive Director does not have the required level of shares retained (200 per cent of salary), then 50 per cent of their vested PSP and/or deferred bonus shares will be held until this requirement has been met. This replaces the five-year time frame within which the shareholding guideline must be met.

For any new Executive Directors appointed there will be a two-year post-employment holding requirement at the level of the shareholding guideline immediately prior to departure or the actual shareholding at departure. We are not introducing this requirement for the current Executive Directors as we believe that their current PSP and deferred bonus awards provide a very significant post-employment interest stretching out several years from the point of cessation of employment. For example, under the PSP, early exercise of outstanding awards is not triggered in the event of departure (other than in genuinely exceptional circumstances) and the two-year holding period remains in place for any vested awards. In the Chief Executive's case, this would mean that a substantial proportion of his wealth would remain linked to the performance of Greggs shares in the event of the cessation of his employment (well in excess of the in-service requirement of 200 per cent of base salary, at the current share price). In light of this position the Committee was not convinced of the need to apply a further post-employment shareholding requirement on top of this for the existing Executive Directors.

Pension In order to comply with the UK Corporate Governance Code, our current Executive Directors will have their pension contributions reduced to match the level of the percentage pension contribution of the majority of the workforce (currently four per cent). This reduction will commence at the start of the 2021 financial year and take place over a five-year period. The Remuneration Committee believes that this approach is a suitable way of gradually aligning Executive Director pensions with the wider workforce, recognising the reduction to a contractual entitlement. All newly-appointed Executive Directors will have their pension contributions aligned to the rate applying to the majority of the workforce at the time of their appointment.

Performance in 2019 and incentive payments

As disclosed last year, the annual bonus scheme for 2019 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 costs savings (10 per cent), specific project delivery within the change management programme regarding processes and systems (10 per cent) and specific project delivery within the supply chain restructuring programme (10 per cent).

We have delivered exceptional performance and the major investments we have made in recent years to make Greggs an attractive choice for food-on-the-go are delivering. Consumers are responding very positively and we have seen increasing visits from both new and existing customers. Both our profit and like-for-like sales growth have been driven by additional customer visits with strong demand across our traditional ranges as well as the huge popularity of our now iconic vegan-friendly sausage roll.

As a consequence of this phenomenal performance over the year, both the profit and sales elements of the bonus have been met in full. The profit element resulted in the maximum of 50 per cent profit being achieved together with the maximum of 20 per cent sales performance being achieved.

Cost pressures remain, particularly in labour cost growth, and we have worked hard to keep a tight control on costs with this element of the bonus resulting in a pleasing 9.7 per cent (maximum ten per cent) being achieved. There was an equally strong performance in the other strategic objectives that were set and we made good progress with both our systems and supply chain change programmes. This resulted in 9.0 per cent bonus payment against a maximum of ten per cent for each of these strategic elements. Overall, annual bonuses were paid at a level of 97.7 per cent of the maximum for both the Chief Executive and the Finance Director. This equates to payments of 122 per cent (out of a maximum possible of 125 per cent) and 88 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. In the context of this exceptional year of performance, the Board agreed to make a special payment to all colleagues below the Board in recognition of their crucial contribution to business success. All our colleagues shared in a one-off payment costing £7 million which was paid at the end of January 2020 and was in addition to the annual profit share payment all our eligible colleagues receive.

Under the Performance Share Plan, awards made in May 2017 are due to vest in May 2020. These awards are based on average annual EPS growth over the three years to 28 December 2019 and average annual ROCE over the three-year performance period 2017 to 2019. Average annual EPS growth of 17.4 per cent and average annual ROCE of 29.3 per cent resulted in both measures being achieved at a rate of 100 per cent and the PSP award will vest in full.

The Committee is very comfortable that the outstanding 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 2020

With effect from 1 January 2020, the Committee agreed a salary increase of three per cent for the Chief Executive, in line with the average increase for the workforce generally. The fees payable to the Chair and Non-Executive Directors increased by the same amount with effect from the same date.

In the case of the Finance Director, the Committee believes that a higher increase in salary is required. This follows a review of his total remuneration package during 2019, which confirmed that his pay is significantly below any sensible market benchmark for the Finance Director of a high-performing FTSE 250 company. As a result, we are proposing a one-off, phased salary increase for the Finance Director from £323,100 to £351,550 from 1 January 2020 and from £351,550 to £380,000 from 1 January 2021, with the second stage of the increase subject to the Committee being satisfied with the Finance Director's ongoing good performance. While recognising that in percentage terms this represents a significant increase, we believe it is appropriate, fully justified by performance and growth in role, and also restrained. Notwithstanding this increase, the Finance Director's salary and total pay remains below a mid-market pay level when compared to companies of a similar size and scope to Greggs. The salary increase and our rationale for proposing it were discussed with shareholders during the consultation on the revised remuneration policy and we were pleased to receive the support of the majority of those consulted, particularly following changes made to our initial proposal.

In terms of the annual bonus, the Committee believes that the current measures (profit, sales and strategic objectives) remain appropriate and no changes are proposed to the measures or the mix. Financial targets for these measures for the 2020 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 elements 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 2020 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. We fully appreciate that the target ranges must be pitched appropriately, so that management can continue to build on the current strong business performance over the next three-year period. However, we also need to recognise the exceptional nature of the Company's performance through 2019 and the challenges of maintaining growth at such levels.

Approach for 2020 continued

In recent years we have granted PSP awards with a target range requiring average annual EPS growth of five per cent for 25 per cent of the award to vest, rising to 11 per cent for 100 per cent of the award to vest. We propose to maintain this EPS growth range for the 2020 grant. Taking into account that this growth will be measured from a base year (2019) of exceptional performance, and cognisant of internal and external expectations of growth, we believe these targets represent a challenging but achievable incentive for management for the years to come. We recognise that the proposed changes to the remuneration policy incorporate increases to PSP award levels, and that some investors and proxy advisers expect performance targets to be increased in such circumstances. We have not taken this approach given the considerable stretch inherent in materially increasing EPS from the current level, our desire to ensure that the PSP targets are viewed as realistic by management, and our concerns that setting unachievably high growth targets could incentivise inappropriate risk-taking.

For the ROCE portion of previous PSP awards, our approach has been to apply different target ranges which reflect the specific circumstances of the business at the start of each performance period. For the 2019 grant, we set a target range of 24-28 per cent (assessed on the basis of average annual ROCE over the performance period). These targets were set prior to the introduction of IFRS 16, the accounting standard for leases which impacts Greggs reported results from 2019. For the PSP grant to be made in 2020, the proposed target range takes into account the impact of IFRS 16. On this basis, we have determined that average annual ROCE of 18 per cent will result in vesting at a level of 25 per cent, rising to full vesting for average annual ROCE of 21 per cent. These numbers are reflective of the adjustments to our reporting required for IFRS 16 purposes and we believe the target range represents a challenging but achievable incentive equivalent in stretch to the range set for prior year awards.

Additional disclosures

We have updated our reporting to take into account the changes to the remuneration reporting regulations which apply to Greggs for the first time this year. As required, we have disclosed the ratio of the pay of the Chief Executive to the employee base.

As required in the regulations, we confirm our belief that the median pay ratio for the year is consistent with the Company's wider pay, reward and progression policies affecting our employees. Our pay reflects the key market in which we operate although we also support our colleagues with additional benefits. Changes to the basic salary of our Chief Executive have consistently been in line with the base pay award given to our colleagues over the last five years. Although the variable pay of our Chief Executive has increased in the last few years this is reflected in the increased Company value over the representative period and more specifically in the exceptional business performance in 2019. We believe that there has been an excellent link between reward and performance.

We also include additional disclosures to bring our reporting fully into line with the UK Corporate Governance Code, including references to the Committee's engagement with the wider workforce. We believe that our approach to executive remuneration fully takes into account the Code's focus on clarity, simplicity, risk, predictability, proportionality and alignment to culture. For example, we operate simple remuneration schemes consistently year-to-year, which are explained clearly and transparently in this Directors' remuneration report. The typical award levels and potential payouts are disclosed in the remuneration policy and it has been demonstrated in this statement how outcomes have been aligned with performance and strategy.

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 support at this year's AGM for the three resolutions covering our new remuneration policy, the annual report on remuneration and the amendment to the PSP rules.

Yours faithfully

Sandra Turner
Chair of the Remuneration Committee
3 March 2020

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 to best serve the interests of the Company, its shareholders, its employees and customers.

The current 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 outlined below is a new policy which will be put to a binding vote of shareholders at the AGM to be held on 13 May 2020 and be effective from that date. A resolution to amend the PSP rules to increase the individual limits will also be presented at the AGM.

The new policy was developed by the Remuneration Committee with input from its independent external advisers and was further refined following a consultation exercise which took place during 2019 with major shareholders and the leading proxy agencies.

The policy for the remuneration of the Executive and Non-Executive Directors is set out in the tables below, with notes explaining the changes from the policy approved in 2017:

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 are recognised in setting salary levels. Salaries are paid monthly in cash.	No maximum limit is prescribed. 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.
No change to policy			
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.

Remuneration policy report continued

Element	Purpose and strategy	Operation	Maximum opportunity
No change to policy			
Pension	To support a competitive remuneration package in the marketplace and ensure that pension contributions are aligned to the rate applying to the majority of the workforce over time.	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. All current Executive Directors will have their pension contributions reduced over five years, commencing with the financial year 2021. The reduction will be in equal proportions until their contribution rate matches that of the majority of the workforce.	Up to 22.5% of base salary contribution for the current Chief Executive and up to 15% of base salary for other Executive Directors, but reducing to the percentage pension contribution of the majority of the workforce over time. All new Executive Directors will have their pension contribution aligned to the rate applying to the majority of the workforce.

Change to policy – All newly-appointed Executive Directors will have their pension contributions aligned to the rate applying to the majority of the workforce (currently 4%).

The pension contributions of all current Executive Directors will reduce to that of the majority of the workforce over a five-year period (as set out above).

Element	Purpose and strategy	Operation	Maximum opportunity
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, if the operating profit performance for the year is judged to be running significantly below that required for the achievement of the long-term strategy. The Committee will be able to adjust the formula-driven outcome from any bonus plan if, in the judgement of the Committee, this does not reflect broader Company performance or the shareholder experience, or the payment level is otherwise inappropriate. 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, misconduct, reputational damage or corporate failure where this has led to an overpayment in the view of the Committee. There is a flexible mechanism which allows the Company to withhold outstanding deferred or future remuneration or recover the overpayment direct from the individual concerned.	Capped at 150% of base salary for the Chief Executive and 125% of base salary for other Executive Directors. On target performance delivers no more than 50% of the maximum. No more than 25% of the bonus opportunity is payable under each element for threshold performance.

Change to policy – The current (2017) policy provides for a maximum bonus potential of 125% for the Chief Executive and 90% for all other Executive Directors. The revised policy increases this policy limit to 150% of salary for the Chief Executive and 125% of salary for other Executive Directors.

On target performance currently delivers 60% of the maximum and it is proposed that this is reduced to 50% of the maximum for the duration of the new policy period.

We have formally included within the policy the discretion available to the Committee to amend outcomes to ensure that payments fully take into account the performance of the Company and the shareholder experience.

The recovery and withholding provisions in relation to the bonus have been extended and now cover corporate failure and reputational damage.

These changes will ensure that the policy is fit for purpose for the next policy cycle and will ensure that we can recruit and retain Executive Directors who are appropriately incentivised to drive the business forward and be rewarded for success.

Remuneration policy report continued

Element	Purpose and strategy	Operation	Maximum opportunity
Performance Share Plan (PSP)	To incentivise long-term value creation, retention of our talent and ensure alignment of Executive Directors' and shareholders' interests.	Awards are granted under the PSP annually at the discretion of the Committee. Performance conditions will be based on appropriate financial measures with targets being set for each metric which reflect the strategic plan and business outlook over the respective performance period. 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). A PSP award holder will be entitled to a dividend equivalent payment in respect of any vested shares. The Committee will be able to adjust the formula-driven outcome from the PSP if, in the judgement of the Committee, this does not reflect broader Company performance or the shareholder experience, or the vesting level is otherwise inappropriate. Recovery and withholding provisions allow the Company to recoup vested PSP awards within three years in the event of misstatement of performance, error, misconduct, reputational damage or corporate failure 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.	150% of base salary for the Chief Executive and 125% of base salary for other Executive Directors (150% of base salary in exceptional circumstances). Threshold vesting at 25% of the maximum.

Changes to policy – The current (2017) policy provides for PSP awards at up to 115% of base salary for the Chief Executive and 95% of base salary for other Executive Directors, with awards of up to 150% of base salary in exceptional circumstances. It is proposed that the revised policy will allow for awards of up to 150% of base salary for the Chief Executive and 125% of base salary for the other Executive Directors (with awards for exceptional circumstances maintained at 150% of base salary for these other Directors).

There will be greater flexibility to set performance conditions in line with the business strategy. The policy table no longer explicitly refers to just EPS and ROCE.

We have formally included within the policy the discretion available to the Committee to amend outcomes to ensure that payments fully take into account the performance of the Company and the shareholder experience.

The recovery and withholding provisions in relation to the PSP have been extended and now cover corporate failure and reputational damage.

In line with the PSP rules an award holder will be entitled to a dividend equivalent payment in respect of any vested awards.

The Committee believes that these changes will ensure that the policy is fit for purpose for the next policy cycle and will ensure that we can recruit and retain Executive Directors who are appropriately incentivised to drive the business forward and be rewarded for success.

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.	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.

No change to policy

Element	Purpose and strategy	Operation	Maximum opportunity
Share retention guidelines	To further align the interests of Executive Directors with those of shareholders.	Executive Directors are required to build up a shareholding of 200% of base salary. Where an Executive Director has not reached the required level, 50% of the shares vesting from incentive schemes must be held until this requirement has been met. This is achieved through vested awards granted via the PSP and deferred bonus shares. For any new Executive Directors appointed following approval of this policy there will be a two-year post-employment holding requirement at the lower of the level of the shareholding guideline immediately prior to departure or the actual shareholding at departure.	n/a

Proposed changes – Where an Executive Director does not meet the required shareholding guideline (200% of salary), then 50% of their vested PSP and/or deferred bonus shares will be held until this requirement has been met. The five-year timeframe within which the shareholding guideline must be met has been removed.

For any new Executive Directors appointed there will be a two-year post-employment holding requirement at the level of the shareholding guideline immediately prior to departure or the actual shareholding at departure if lower.

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 are paid an additional fee to reflect their additional responsibilities. These fees are usually reviewed and set annually. Additional fees may be paid where there is a material increase in the time commitments and responsibilities required of Non-Executive Directors. 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.

Change to policy – The policy now provides some flexibility to make additional payments to Non-Executive Directors, where there has been a material increase in their specific time commitments and responsibilities.

Choice of performance measures

The remuneration policy provides the Remuneration Committee with the flexibility to choose appropriate performance conditions for the annual bonus scheme and for PSP awards, subject to the constraints set out in the table above. The choice of metrics will depend upon the strategic focus for the Group at the time decisions around the awards are taken. The specific measures and the targets used to assess performance will be disclosed in the Directors' remuneration report on an annual basis.

Remuneration policy report continued

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 and wider workforce remuneration and related policies. While employees are not formally consulted on the terms of Executive Director remuneration, the Remuneration Committee has engaged with a representative group of employees to explain how remuneration for Directors aligns with wider Company pay policy.

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 base pay increase across the general workforce. We also share ten per cent of our profits annually with all eligible colleagues across the business.

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. PSP participation extends below Board level, and there is an additional share option scheme in place for certain other employees.

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.

How shareholders' views are taken into account

The Committee takes the views of shareholders seriously and these views are taken into account in shaping remuneration policy and practice. Shareholder views are considered when evaluating and setting the remuneration strategy and the Committee commits to consulting with key shareholders prior to any significant changes to the policy. The Committee consulted shareholders and proxy agencies extensively in relation to the new policy and incorporated several points of investor feedback.

Policy discretion

The Committee will operate incentive plans in accordance with their respective rules, the Listing Rules and 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, but not waive, existing performance conditions for exceptional events so that they can still fulfil their original purpose.

Legacy arrangements

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

Policy on recruitment remuneration

The Committee will set a new Executive Director's remuneration package in line with the Company's approved policy at the time of appointment. In arriving at a total package and in considering the quantum for each element of that package, the Committee will take into account 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 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 healthcare 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	– The Chief Executive's contract is terminable on 12 months' notice served by either the Company or the Director; – the 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 up to 12 months' notice served by either party.

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

Under their service contracts, if notice is served the Executive Directors are entitled to salary, pension contributions and benefits for their notice period save where a payment in lieu is to be made. The Company would seek to ensure that any payment is mitigated by use of phased payments and offset against earnings elsewhere in the event that an Executive Director finds alternative employment during his notice period. There are no contractual provisions in force other than those set out above that impact any termination payment.

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

- any right to annual bonus in the year of departure would lapse unless the individual is leaving in good leaver circumstances, in which case a 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, but may be released early in exceptional circumstances, such as ill-health;
- 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, their 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

Remuneration policy report continued

– 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:

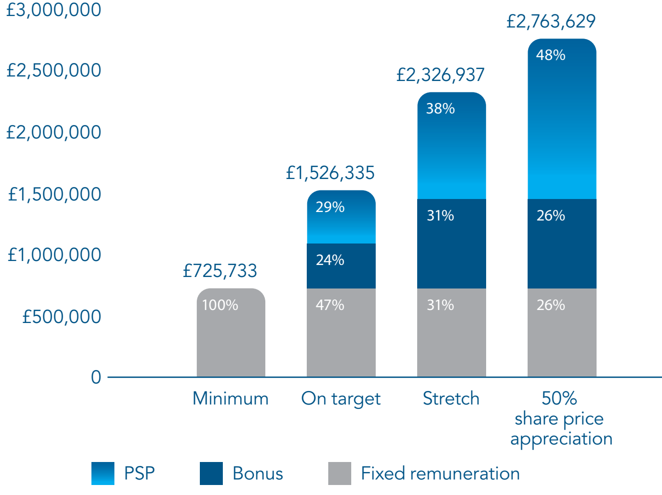
Director	Date of contract
Roger Whiteside	4 February 2013
Richard Hutton	7 April 2006

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

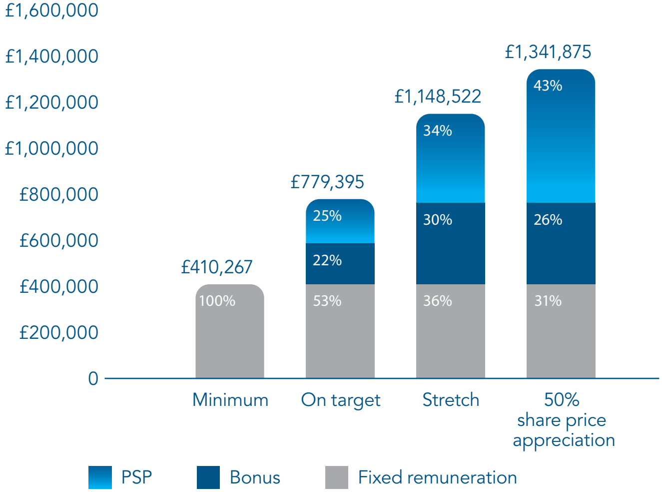
The following charts indicate the level of remuneration payable to Executive Directors in 2019 based on policy at 'minimum' remuneration, remuneration in line with 'on target' Company performance, and the maximum remuneration available.

Chief Executive – Roger Whiteside



	Minimum	On target	Stretch	50% share price appreciation
Fixed remuneration:				
– Salary	£582,256	£582,256	£582,256	£582,256
– Pension	£131,008	£131,008	£131,008	£131,008
– Benefits	£12,469	£12,469	£12,469	£12,469
Bonus	–	£363,910	£727,820	£727,820
Performance Share Plan	–	£436,692	£873,384	£1,310,076
Total	£725,733	£1,526,335	£2,326,937	£2,763,629

Finance Director – Richard Hutton



	Minimum	On target	Stretch	50% share price appreciation
Fixed remuneration:				
– Salary	£351,550	£351,550	£351,550	£351,550
– Pension	£49,217	£49,217	£49,217	£49,217
– Benefits	£9,500	£9,500	£9,500	£9,500
Bonus	–	£175,775	£351,550	£351,550
Performance Share Plan	–	£193,353	£386,705	£580,058
Total	£410,267	£779,395	£1,148,522	£1,341,875

Assumptions used in the charts:
Base salary levels as at 1 January 2020.
The value of taxable benefits is based on the cost of supplying those benefits (as disclosed) for the 52 weeks ended 28 December 2019.

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, resulting in a pay-out of 50% of the maximum.
Maximum remuneration – assumes satisfaction of all performance conditions for all elements under the annual bonus plan and therefore full pay out.

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.
Maximum remuneration – assumes full vesting is achieved.

Remuneration policy report continued

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 reappointed 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
Helena Ganczakowski	2 January 2014
Peter McPhillips	10 March 2014
Sandra Turner	1 May 2014
Kate Ferry	1 June 2019

Current 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.

All new Non-Executive Directors, from June 2019, are appointed for an initial term of three years unless terminated earlier by either party giving to the other party three months' written notice.

Annual remuneration report

Outlined below are the current Remuneration Committee members:

Member	Meeting attendance
Sandra Turner (Chair since appointment to the Board)	5/5
Allison Kirkby (left the Board on 21 May 2019)	2/2
Helena Ganczakowski	5/5
Peter McPhillips	5/5
Kate Ferry (from 1 June 2019)	3/3

All members are considered to be independent for the purpose of the UK Corporate Governance Code. 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, other Executive Directors, the Chairman and senior management. It is the Committee's role to design a policy that ensures 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 on executive remuneration matters. Although the Committee does not formally consult with employees on Directors' pay policy, it has engaged with a representative group of employees to explain how Executive Director remuneration aligns with wider Company pay policies. This process started in early 2020 and will be developed further.

Summary of Committee activity during 2019

During 2019 the Committee has, among other things:

- Approved the new three-year remuneration policy to be implemented as of 2020;
- Discussed and reviewed the new UK Corporate Governance Code and the new remuneration reporting regulations;
- Discussed and reviewed Directors' salaries;
- Discussed and reviewed the fees for the Chairman;
- Discussed and reviewed the 2019 bonus percentage and the bonus metrics for the year ahead;
- Discussed and reviewed the targets for bonus and PSP for the year ahead;
- Approved grants under the share option scheme (to senior managers below Operating Board level);
- Approved the Company SAYE scheme;
- Engaged with investors with regard to the proposals for the new three-year remuneration policy; and
- Reviewed remuneration of all colleagues across Greggs

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 86 to 93 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 £63,000. Korn Ferry did not provide any other services to the Company during 2019.

Shareholder dialogue

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

The voting outcome from the 2019 AGM reflected strong support from both individual and institutional shareholders, and the results are outlined below:

	Approve the remuneration report	
	Total number of votes	% of votes cast
For	65,587,827	99.11%
Against	586,203	0.89%
Total votes cast (excluding votes withheld)	66,174,030	100.00%
Votes withheld	162,775	
Total votes cast (including votes withheld)	66,336,805	

Annual remuneration report 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	100.00%
Votes withheld	170,679	
Total votes cast (including votes withheld)	61,185,467	

How our remuneration policy will be implemented in 2020 – Executive Directors

The section below summarises the implementation of our remuneration policy for 2020.

Base salary 2020

The annual base salaries for the Executive Directors were reviewed with effect from 1 January 2020; increases and current salaries are outlined below:

Director	Salary as at 1 January 2019	Salary as at 1 January 2020	% increase
Roger Whiteside (Chief Executive)	£565,594	£582,256	3.0%
Richard Hutton (Finance Director)	£323,100	£351,550	8.8%

The increase for our Chief Executive is in line with the average base salary increase for the workforce as a whole.

The rationale for the salary increase for the Finance Director is set out in the annual statement from the Chair of the Remuneration Committee on page 59. As also disclosed in the statement, it is the Committee's intention to make a further increase to the Finance Director's salary with effect from 1 January 2021, subject to his ongoing good performance in the role.

Pension contribution 2020

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

Roger Whiteside	22.5%
Richard Hutton	14.0%

As explained in the annual statement from the Chair of the Remuneration Committee, the above pension contribution rates will reduce to the wider workforce rate over a five-year period starting in the financial year 2021.

Annual bonus 2020

The annual bonus opportunity for 2020 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 100% 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 2020 bonus there will be four strategic objectives, two, each relating to ten per cent of the bonus opportunity and a further two, each relating to five per cent of the bonus opportunity. They are:

1. Cost savings (ten per cent of the measure)
2. Specific project delivery within our change programme regarding processes and systems with a target pay out (five per cent of the of the measure) based on the implementation of a critical IT solution at a 'combined (logistics and manufacturing)' site and a maximum (ten per cent of the of the measure) pay out being achieved with IT solutions implementations at an additional two sites (logistics or manufacturing)
3. Roll out of a delivery operating model (five per cent of the measure)
4. Increasing the distribution of unsold food (five per cent of the measure)

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 with a maximum of ten per cent bonus paid out for threshold performance for the profit and sales elements of the bonus.

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 out-turn and performance in 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.

PSP award 2020

PSP awards will be granted as follows:

Chief Executive	150% of base salary
Finance Director	110% of base salary

Annual remuneration report continued

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 2020 awards the target ranges will be as follows:

- The EPS* performance condition will require average annual growth of EPS of five to 11 per cent over three financial years measured from the 2019 financial year end; and
- The ROCE* condition will require average annual ROCE over the three-year performance period (2020, 2021 and 2022) to be in the range 18 to 21 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.

How our remuneration policy will be implemented in 2020 – 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.

The Non-Executive Directors are paid an annual base fee and additional responsibility fees for the role of Senior Independent Director (SID) or for chairing a Board Committee.

These fees are usually reviewed and set annually. Following a repositioning of fees during 2019 to ensure that they were appropriate for the time commitment and comparable to similar businesses, the fees for Non-Executive Directors increased by three per cent on 1 January 2020 in line with the average base salary increase for our whole workforce in 2020.

Details of the fees being paid to Non-Executive Directors in 2020 are set out below:

Name	Position	Base fee	Additional fee	Fee
Ian Durant	Chairman			£200,850
Kate Ferry	Chair of the Audit Committee	£51,500	£10,900	£61,800
Helena Ganczakowski	Non-Executive Director	£51,500	–	£51,500
Peter McPhillips	Non-Executive Director	£51,500	–	£51,500
Sandra Turner	SID and Chair of the Remuneration Committee	£51,500	£10,900	£61,800

These fees may be subject to change during the year based on any change in responsibility or time commitment.

* EPS and ROCE are measured excluding exceptional items.

How our remuneration policy was implemented in 2019 (audited)

Total remuneration payable for 2019 – Executive Directors

The following table presents the remuneration payable for 2019 (showing the equivalent figures for 2018) for the Executive Directors.

	Salary £	Pension contribution (including salary in lieu) £	Taxable benefits £	Annual incentives (including profit share) £	Performance Share Plan[1, 2] £	Total remuneration £
Roger Whiteside						
2019	**565,594**	**127,259**	**12,469**	**690,732**	**1,134,026**	**2,530,080**
2018	549,120	123,552	12,483	406,349	633,093	1,724,597
Richard Hutton						
2019	**323,100**	**44,021**	**12,090**	**284,102**	**535,141**	**1,198,454**
2018	313,689	41,397	17,193	167,133	281,292	820,704

Notes:

1 The value of the PSP award due to vest on 19 May 2020 is based on the forecast level of vesting (100%) and the value of the awards is based on the average share price over the final three months of the financial year. This value will be trued up in the 2020 report to reflect the share price at the vesting date. The 2018 PSP value has been restated and reflects the actual value of the awards that vested in March 2019, following the estimated value presented last year.

2 The amount of the 2019 PSP award value which is linked to share price appreciation is disclosed in the table on page 78.

Fees – Non-Executive Directors

The fees for Non-Executive Directors were as follows:

	Per annum as of 1 July 2019	Per annum as of 1 January 2019	Actual paid 2019	Actual paid 2018
Ian Durant	£195,000	£172,849	£183,925	£167,815
Allison Kirkby*	n/a	£52,815	£20,475	£51,277
Helena Ganczakowski	£50,000	£45,979	£47,990	£44,640
Peter McPhillips	£50,000	£45,979	£47,990	£44,640
Sandra Turner	£60,000	£52,815	£56,408	£51,277
Kate Ferry**	£60,000	n/a	£34,401	n/a

The Chairman and Non-Executive Directors' fees were reviewed in 2019, recognising the increase in time commitment and also compared to market practice. After careful consideration the fees were increased as of 1 July 2019, as set out in the table above.

* Allison Kirkby left the Board on 22 May 2019

** Kate Ferry joined the Board on 1 June 2019

Annual remuneration report continued

Annual bonus 2019

The table below outlines the bonus performance conditions and payments to Executive Directors in respect of the 2019 scheme.

Measure	Strategic objective	Weighting	Entry	Target	Stretch	Actual	%
Profit (£)*	To deliver profit before tax (excluding exceptional items and property profits)	50%	£84.9m	£89.9m	£93.9m	£117.6m*	50%
Sales (%)	To deliver target increase in Company-managed like-for-like sales	20%	2.3%	3.3%	4.3%	9.2%	20%
Strategic (£)	Cost savings	10%	£6.0m	£10.0m	–	£9.88m	9.7%
Strategic	Supply chain reorganisation**	10%				Partially achieved	9.0%
Strategic	Process and system change delivery**	10%				Partially achieved	9.0%
Total weighting based on balanced scorecard		**100%**					**97.7%**

* From 30 December 2018 the Company has implemented IFRS 16 Leases and has chosen to use the modified transition approach to the implementation of IFRS 16. The comparative figures for 2018 have therefore not been restated and, as a result, the 2018 base figure for the bonus was determined on a different accounting basis to the 2019 results.
The Remuneration Committee agreed when the 2019 bonus targets were set, that in order to provide transparency, the adjustment to be made to the 2019 profit to bring it in line with the 2018 base figure would be determined in advance of performance against the targets being assessed. The adjustment figure is an increase to profit before tax of £4.2 million giving an adjusted figure of £117.6 million.

** Further details of the supply chain reorganisation and process and system change delivery metrics are set out below:

Supply chain reorganisation (10%)

Metric	Minimum 5%	7.5%	Maximum 10%
Effective implementation of supply chain reorganisation in 2019	Full consolidation of doughnut and cream production activity into Centres of Excellence	Installation of one further production platform	Installation of one further production platform

The Committee considered performance against the targets set at the start of the year. The business was successful in consolidating all doughnut bases and cream production into centres of excellence, with the distribution network implemented to support these products. Additionally, the vast majority of doughnuts are now iced and filled by machine, although, as at the year-end, hand finishing of two lines was required, in part due to exceptional levels of demand. In other areas, the business successfully installed two further production platforms: a new bread line in Enfield and a further platform in Treforest. Taking all these factors into account, the Committee determined that 90 per cent of this element of the bonus was payable. This led to a payout at a level of nine per cent of the maximum ten per cent available.

Process and system change delivery (10%)

Metric	Minimum 5%	7.5%	Maximum 10%
Implementation of critical IT systems with successful operation and acceptance into service	Implementation and acceptance into service of Balliol Manufacturing & Logistics and the new payroll system	Implementation of one further IT solution or site	Implementation of one further IT solution or site

The Committee considered performance against the targets set at the start of the year. Balliol Manufacturing & Logistics was successfully implemented and introduced into service. Major IT solutions were introduced for salaried staff and the retail weekly payroll, with rollout for the supply chain weekly payroll due in early 2020. In addition, new IT solutions were implemented in the Amesbury and Enfield distribution centres. Taking all these factors into account, the Committee determined that 90 per cent of this element of the bonus was payable. This led to a payout at a level of nine per cent of the maximum ten per cent available.

Bonus achieved for 2019	As % of maximum
Roger Whiteside	97.7%
Richard Hutton	97.7%

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

Details of the shares awarded in 2019 for the 2018 bonus year are outlined below. These were awarded on 28 March 2019 and will be released on 28 March 2021:

Director	Number of shares awarded
Roger Whiteside	1,846
Richard Hutton	760

Performance Share Plan award for performance over 2017 to 2019

The PSP award granted in 2017 measured EPS performance by reference to the three financial years to 28 December 2019 and average annual ROCE over the three-year performance period 2017 to 2019. 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 average annual EPS** growth of 5 –11% per annum over three financial years.	5% p.a. (12.5% vesting)	11% p.a. (100% vesting)	17.4%	50%
ROCE (50%)	Average annual ROCE over the three-year performance period.	23% (12.5% vesting)	27% (100% vesting)	29.3%	50%
				Total vesting	100%

* From 30 December 2018 the Company has implemented IFRS 16 leases and has chosen to use the modified transition approach. The comparative figures for 2018 have therefore not been restated and, as a result, the base figures for the 2017 PSP award were determined on a different accounting basis to the 2019 results. The Remuneration Committee agreed during the year to make appropriate adjustments to reflect the impact of IFRS 16. The adjustment figure is an increase to profit before tax of £4.2 million giving an adjusted figure of £118.4 million. The tax charge is increased by £0.9 million to give an adjusted profit after tax of £95.1 million. For the calculation of ROCE the total assets less current liabilities will be reduced by £219.2 million to reflect the impact of the inclusion of right-of-use assets and current lease liabilities.

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

Annual remuneration report continued

The figures used for the measurement of PSP performance can be reconciled to the statutory accounts as follows:

EPS	2019 as reported (see page 94) £m	IFRS 16 adjustments £m	2019 for PSP calculations £m
Underlying profit before tax	114.2	4.2	118.4
Income tax	(22.4)	(0.9)	(23.3)
Underlying profit after tax	91.8	3.3	95.1
Weighted average number of ordinary shares during the year (see note 9)	100,813,153	100,813,153	100,813,153
Underlying earnings per share	91.0p	3.3p	94.3p

When compared to the 2016 base EPS of 62.0p the 2019 adjusted figure of 94.3p gives an average annual increase of 17.4 per cent.

ROCE	2019 as reported (see page 94) £m	IFRS 16 adjustments £m	2019 for PSP calculations £m
Underlying profit before tax	114.2	4.2	118.4
Capital employed			
Opening	559.3	(216.3)	343.0
Closing	580.1	(219.2)*	360.9
Average	569.7		352.0
Return on capital employed	20.0%		33.6%

* This adjustment is based on forecasts made on transition and therefore cannot be reconciled to the accounts.

ROCE in 2017 and 2018 was 26.9% and 27.4% respectively and when combined with the adjusted figure for 2019 of 33.6% this gives an average of 29.3%

These awards will vest on 19 May 2020.

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	57,303	£614,288	100%	57,303	£1,134,026	£519,738
Richard Hutton	27,041	£289,880	100%	27,041	£535,141	£245,262

Notes:
1 Based on a share price at grant of £10.72.
2 Based on a three-month average share price to 28 December 2019 of £19.79.

Performance Share Plan Awards granted during 2019 are as follows:

Executive	Type of award	Basis of award granted	Share price at date of grant (11 April 2019)	Number of shares over which award was granted	Face value of award	% of face value that would vest at threshold performance	Vesting performance measurement period
Roger Whiteside	Nil cost options	115% of salary	£18.30	35,543	£650,437	25%	Three financial years to 1 January 2022
Richard Hutton		95% of salary	£18.30	16,772	£306,927		

The target ranges for this award are as follows:

- EPS average annual growth of 5 to 11 per cent over three years from the 2018 financial year end.
- Average annual ROCE over the three-year performance period (2019, 2020 and 2021) to be in the range 24 to 28 per cent.

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

Outstanding share awards

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

	At 30 December 2018 number	Granted number	Exercised number	Lapsed number	At 28 December 2019 number	Exercise price	Date of grant	Market price of each share at date of grant	Date from which exercisable	Expiry date	Scheme
Roger Whiteside	42,560	–	34,129[1]	8,431	–	£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
	–	35,543	–	–	35,543	£nil	Apr 19	£18.300	Apr 22	Apr 29	PSP
	148	–	148[2]	–	–	£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
	–	84	–	–	84	£14.84	Apr 19		Jun 22	Nov 22	SAYE
	153,104	35,627	34,277	8,431	146,023						
Richard Hutton	18,910	–	15,164[3]	3,746	–	£nil	Mar 16	£11.020	Mar 19	Mar 26	PSP
	27,041	–	–	–	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
	–	16,772	–	–	16,772	£nil	Apr 19	£18.300	Apr 22	Apr 29	PSP
	148	–	148[2]	–	–	£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
	–	84	–	–	84	£14.84	Apr 19		Jun 22	Nov 22	SAYE
	71,308	16,856	15,312	3,746	69,106						

Notes:

1 The market value on the date of exercise was £22.360 and the resultant gain on exercise was £763,124.
2 The market value on the date of exercise was £21.560 and the resultant gain on exercise was £1,903.
3 The market value on the date of exercise was £18.370 and the resultant gain on exercise was £278,563.

Annual remuneration report continued

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

The mid-market price of ordinary shares in the Company as at 28 December 2019 was £22.96. The highest and lowest mid-market prices of ordinary shares during the financial year were £24.76 and £12.68, 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 pension scheme during the year and their accrued benefits in the scheme at the year end:

Executive Director	Date of birth	Date service commenced	Accrued annual pension entitlement as at 30 December 2018 £	Accrued annual pension entitlement as at 28 December 2019 £	Increase in accrued pension entitlement for the year £	Increase in accrued pension entitlement for the year net of inflation of 1.269[4]% £	Transfer value of increase in accrued pension entitlement for the year £
Richard Hutton	3 June 68	7 Jan 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 1.269 per cent shown in the table above is that published by the Secretary of State for Work & Pensions in accordance with Schedule 3 of the Pensions Schemes Act 1993.

	Cash equivalent transfer value as at 29 December 2018 £	Cash equivalent transfer value as at 28 December 2019 £	Increase in the cash equivalent transfer value since 30 December 2018 £
Richard Hutton	335,631	371,422	–

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.

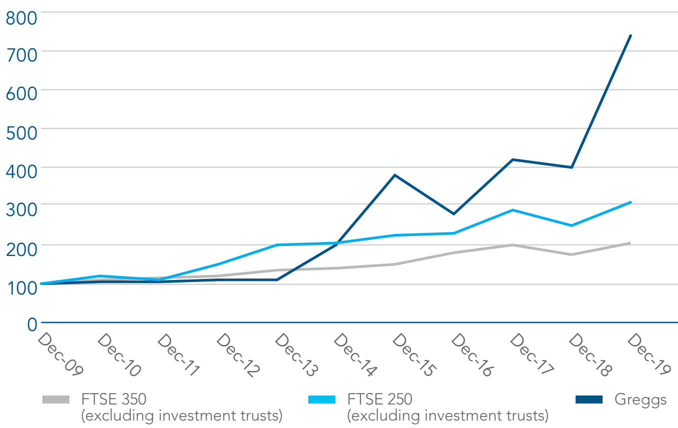
The main features of the defined benefit pension scheme are:

- 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 Index (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 ten years

The table below shows the total remuneration figure for the Chief Executive over the same ten-year period as the graph above. 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	2019
Total remuneration	£767,397	£707,245	£635,030	£1,011,381	£1,238,248	£2,462,193	£2,135,526	£1,676,652	£1,724,597	£2,530,080
Bonus (% of max potential)	56.6%	38.6%	18.0%	20.0%	100.0%	93.7%	86.7%	64.3%	59.2%	97.7%
PSP/options (% of max potential)	n/a	0.0%	78.3%	n/a	n/a	100.0%	100.0%	100.0%	80.2%	100.0%

Directors' shareholding and share interests (Audited)

Details of the shareholdings of each Executive Director as at 28 December 2019 and their interests in shares are detailed below with the percentage holding calculated using the share price at that date. As stated in the Directors' remuneration policy, Executive Directors are required to build a shareholding equivalent in value to 200 per cent of basic salary:

Director	Beneficially owned at 28 December 2019	Beneficially owned at 29 December 2018	Outstanding PSP awards	Outstanding option awards	% shareholding achieved at 28 December 2019
Roger Whiteside	150,306	222,666	145,646	377	610%
Richard Hutton	89,218	82,591	68,729	377	634%
Ian Durant	11,700	11,700	–	–	n/a
Allison Kirkby	n/a	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
Kate Ferry	–	–	–	–	n/a

There have been no changes since 28 December 2019 in the Directors' interests noted above.

Annual Remuneration Committee report continued

Exit payments or payments to past Directors (Audited)

No payments for compensation or loss of office were paid to, or receivable by, any former 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 fees that he earns. In 2019 this fee was £45,000.

Richard Hutton was appointed as Non-Executive Director of The Lakes Distillery Company plc effective from 1 June 2018. He retains the fees that he earns. In 2019 this fee was £25,000.

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.

	2019 £m	2018 £m	% increase
All colleague costs	410.3	368.3	11.4%
Dividends	72.1	33.1	117.8%*
Retained profit (excluding exceptional items)	91.8	71.6	28.2%
Corporation tax paid	20.3	16.1	26.1%

* includes the impact of the special dividend paid in October 2019

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 2018 to 2019
Chief Executive	
– Salary	3.0%
– Benefits	(0.1%)
– Performance pay	75.6%
Average per colleague	
– Salary	3.2%
– Benefits*	13.1%
– Performance pay	85.5%

* The average employee benefits figure is based on tax year 2018/2019 for 2019 and tax year 2017/2018 for 2018.

Chief Executive pay ratio reporting

Outlined below is the ratio of the Chief Executive's single figure of total remuneration for 2019 expressed as a multiple of total remuneration for UK employees.

The three ratios referenced below are calculated by reference to the employees at the 25th, 50th and 75th percentile. We additionally disclose the total pay and benefits and base salary of the employees used to calculate the ratios.

In time, the table below will build to represent ten years of data:

Financial year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2019	Option B	132:1	126:1	108:1

Full-year pay data for the 2019 financial year has been used to calculate the ratios.

The employee data used to calculate the ratios is as follows:

	25th percentile	Median	75th percentile
Total pay and benefits	£19,151	£20,014	£23,350
Base salary	£17,868	£18,385	£21,544

The following adjustments have been made in order to calculate the figures above:
- We have used the assumption of a 40-hour week in order to calculate the hourly rate for the Chief Executive from the single total remuneration figure (see page 81).
- As the hours our colleagues work vary week to week we have converted their hourly rate of pay into the equivalent 40-hour week in order that this is directly comparable with the hourly rate for the Chief Executive.

Of the three options set out in the new legislation for calculating the Chief Executive pay ratio, we have opted to use Option B – which uses Gender Pay Gap (GPG) data – to calculate the pay ratio. We believe the steady nature of our workforce ensures that the representative group remains the same as those individuals who are identified through the GPG reporting process.

The individuals represented at the 25th, median and 75th percentile are all colleagues within our retail shops. The nature of our workforce and demographics are such that we have over 80 per cent of our colleagues working in our front-line shop operations which is characteristic of our sector.

As required in the regulations, we confirm our belief that the median pay ratio for the year is consistent with the Company's wider pay, reward and progression policies affecting our employees. Our pay reflects the key market in which we operate, although we also support our colleagues with additional benefits such as profit share and SAYE participation. We also continue to support our colleagues in an environment that is driven by our core culture and values. In the context of this exceptional year of performance, the Board also agreed to make a special payment to all colleagues below the Board in recognition of their crucial contribution to business success. All our colleagues shared in a one-off payment costing £7 million which was paid at the end of January 2020 and was in addition to the annual profit share payment all our eligible colleagues receive.

Changes to the basic salary of our Chief Executive have consistently been in line with the base pay award given to our colleagues over the last five years. Although the variable pay of our Chief Executive has increased in the last few years this is reflected in the increased Company value over the representative period and more specifically in the exceptional business performance in 2019. Our colleagues who own shares in the business have benefited from this share price appreciation.

This report was approved by the Board on 3 March 2020.

Signed on behalf of the Board

Sandra Turner
Chair of Remuneration Committee
3 March 2020

“Eventually, there will be one shop which will have a drive-thru lane, a queue of people who have walked in as normal, a queue of people who ordered on their phone and have come to collect, and a queue of people with helmets on to pick up deliveries. Some of our shops will have all those queues happening at the same time and so we’ve got to think about how we manage them all quickly, seamlessly and with a smile. If we can do that, we’ve got a winning formula.”

Directors responsibilities

Statement of Directors' responsibilities in respect of the annual report and accounts.

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

Company law requires the Directors to prepare Group and Parent Company accounts for each financial year. Under that law they are required to prepare the Group accounts in accordance with 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 comply with that law and those regulations. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of accounts may differ from legislation in other jurisdictions.

Responsibility statement of the directors in respect of the annual accounts

We confirm that to the best of our knowledge:
- the accounts, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the strategic report and Directors' report include a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

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

Roger Whiteside
Chief Executive
3 March 2020

Richard Hutton
Finance Director

1. Our opinion is unmodified

We have audited the accounts of Greggs plc ('the Company') for the 52 weeks ended 28 December 2019 which comprise the consolidated income statement, consolidated statement of comprehensive income, balance sheets, statements of changes in equity, statements of cash flows and the related notes, including the accounting policies.

In our opinion:

– the accounts give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 28 December 2019 and of the Group's profit for the year then ended;
– the Group accounts have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRSs as adopted by the EU');
– the Parent Company accounts have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
– the accounts have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group accounts, Article 4 of the IAS Regulation.

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 36 financial years ended 28 December 2019. 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		£5.0m (2018: £4.0m) 4.4% (2018: 4.5%) of normalised PBT
Coverage		100% (2018:100%) of Group profit before tax
Key audit matters		**vs 2018**
Recurring risks	**New:** Valuation of lease liabilities	▲
	Valuation of defined benefit pension obligation	◀▶
	The impact of uncertainties due to the UK exiting the European Union.	◀▶

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 on our audit. **(Group and Parent Company)** Refer to page 32 (principal risks), page 29 (viability statement), pages 48-55 (Audit Committee report), page 99 (accounting policy) and page 108 (financial disclosures).	**Unprecedented levels of uncertainty** All audits assess and challenge the reasonableness of estimates, in particular as described in valuation of lease liabilities and valuation of defined benefit pension obligation below, and 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 its effects are subject to unprecedented levels of uncertainty of consequences, 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 valuation of lease liabilities and valuation of defined benefit pension obligation and other areas that depend on forecasts, 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 lease liabilities **(Group and Parent Company)** (£275.7 million) Refer to page 50 (Audit Committee Report), pages 100-102 (accounting policy) and pages 116-117 (financial disclosures).	**Subjective valuation** The Group has over 1,700 Company-managed shops, the majority of which are leased. The Group is required to recognise a lease liability in relation to practically all of these leases. The calculation of lease liabilities requires assumptions of the lease term and the discount rate, each of which can have a significant impact on the lease liabilities recognised. Judgement arises in determining the lease term as this relies on assessing the likelihood of continued use of the leased asset after the contractually committed period – for example in circumstances where the Group remains in occupation using rights arising from the Landlord and Tenant Act 1954. Estimation uncertainty arises in respect of the discount rate where the implicit rate in the lease is not available, as is typical in the Group's shop leases. In those circumstances the Group bases the discount rate on the incremental borrowing rate. The incremental borrowing rate is an unobservable input based on assumptions of the Group's credit risk and specific risks of leased assets. Small changes in either of these assumptions across a number of leases could lead to a material change in the valuation of lease liabilities. The effect of these matters is that, as part of our risk assessment, we determined that the valuation of lease liabilities 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 (pages 101 to 102) disclose the sensitivity estimated by the Group.	Our procedures included: – **Sensitivity analysis:** performing sensitivity analyses over the assumptions and considering the outcomes with reference to benchmarks to identify the key assumptions affecting the valuation; – **Our sector experience:** evaluating assumed lease terms with reference to contracts and legal rights, as well as our understanding of the facts and circumstances surrounding the shop's trade; – **Historical comparisons:** comparing assumed lease terms with actual terms of leases which have expired or have been renewed during the period; – **Tests of detail:** corroborating the Group's credit risk assumption with reference to correspondence with bankers; – **Benchmarking assumptions:** comparing the discount rates to market information including gilts and corporate bonds; and – **Assessing transparency:** Assessing the adequacy of the Group's disclosures about the sensitivity of the valuation of lease liabilities to changes in key assumptions. **Our results** – We found the valuation of lease liabilities to be acceptable.

	The risk	Our response
Valuation of defined benefit pension obligation **(Group and Parent Company)** (£127.6 million; 2018: £113.5 million) Refer to page 51 (Audit Committee Report), page 105 (accounting policy) and pages 123-128 (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. 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 21) 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, 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 (2018 result: acceptable).

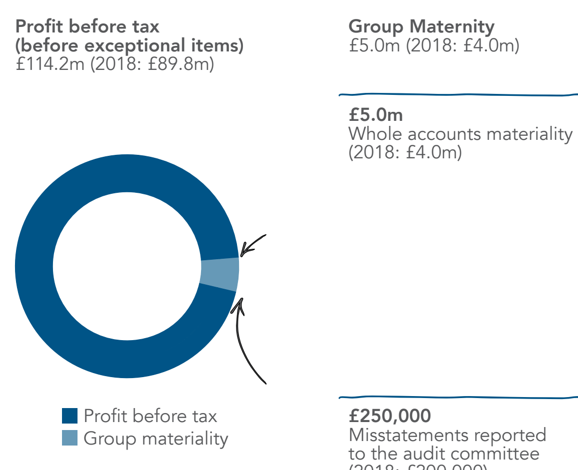
3. Our application of materiality and an overview of the scope of our audit

Materiality for the accounts as a whole was set at £5.0m (2018: £4.0m), determined with reference to a benchmark of Group profit before tax normalised to exclude exceptional items (as disclosed in note 4 to the accounts) of which it represents 4.4% (2018: 4.5%).

Materiality for the Parent Company accounts as a whole was set at £5.0m (2018: £4.0m) determined with reference to a benchmark of Company profit before tax normalised to exclude exceptional items of which it represents 4.4% (2018: 4.5%).

We agreed to report to the Audit Committee any corrected or uncorrected misstatements exceeding £250,000 (2018: £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% (2018: 100%) 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 and 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 Note 1 to 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 pages 46-47 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 (page 29) that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the principal risks and uncertainties disclosures describing these risks and explaining how they are being managed and mitigated; and
- the Directors' explanation in the viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

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

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 85, 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 accounts items.

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 the loss of the Group's license to operate. We identified the following areas as those most likely to have such an effect: Food Safety, Health and Safety and Employment Law, 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. Through these procedures, we became aware of actual or suspected non-compliance and considered the effect as part of our procedures on the related accounts items. The identified actual or suspected non-compliance was not sufficiently significant to our audit to result in our response being identified as a key audit matter.

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

3 March 2020

Consolidated income statement

for the 52 weeks ended 28 December 2019 (2018: 52 weeks ended 29 December 2018)

	Note	**2019 Excluding exceptional items IFRS 16 £m**	**2019 Exceptional items (see Note 4) IFRS 16 £m**	**2019 Total IFRS 16 £m**	2018 Excluding exceptional items IAS 17 £m	2018 Exceptional items (see Note 4) IAS 17 £m	2018 Total IAS 17 £m
Revenue	1	**1,167.9**	**–**	**1,167.9**	1,029.3	–	1,029.3
Cost of sales		**(412.2)**	**(5.9)**	**(418.1)**	(373.4)	(5.9)	(379.3)
Gross profit		**755.7**	**(5.9)**	**749.8**	655.9	(5.9)	650.0
Distribution and selling costs		**(572.8)**	**–**	**(572.8)**	(513.2)	0.4	(512.8)
Administrative expenses		**(62.2)**	**–**	**(62.2)**	(52.9)	(1.7)	(54.6)
Operating profit		**120.7**	**(5.9)**	**114.8**	89.8	(7.2)	82.6
Finance expense	6	**(6.5)**	**–**	**(6.5)**	–	–	–
Profit before tax	3-6	**114.2**	**(5.9)**	**108.3**	89.8	(7.2)	82.6
Income tax	8	**(22.4)**	**1.1**	**(21.3)**	(18.2)	1.3	(16.9)
Profit for the financial year attributable to equity holders of the Parent		**91.8**	**(4.8)**	**87.0**	71.6	(5.9)	65.7
Basic earnings per share	9	**91.0p**	**(4.8p)**	**86.2p**	71.1p	(5.9p)	65.2p
Diluted earnings per share	9	**89.7p**	**(4.7p)**	**85.0p**	70.3p	(5.8p)	64.5p

At 30 December 2018 the Company implemented IFRS 16 Leases using the modified retrospective transition method. As a result the comparative figures have not been restated and are presented on an IAS 17 basis.

Consolidated statement of comprehensive income

for the 52 weeks ended 28 December 2019 (2018: 52 weeks ended 29 December 2018)

	Note	**2019 IFRS 16 £m**	2018 IAS 17 £m
Profit for the financial year		**87.0**	65.7
Other comprehensive income			
Items that will not be recycled to profit and loss:			
Remeasurements on defined benefit pension plans	21	**3.0**	1.0
Tax on remeasurements on defined benefit pension plans	8	**(0.5)**	(0.2)
Other comprehensive income for the financial year, net of income tax		**2.5**	0.8
Total comprehensive income for the financial year		**89.5**	66.5

Balance sheets

at 28 December 2019 (2018: 29 December 2018)

	Note	Group		Parent Company	
		2019 IFRS 16 £m	2018 IAS 17 £m	**2019 IFRS 16 £m**	2018 IAS 17 £m
ASSETS					
Non-current assets					
Intangible assets	10	**16.8**	16.9	**16.8**	16.9
Property, plant and equipment	12	**353.7**	330.4	**354.3**	331.0
Right-of-use assets	11	**272.7**	–	**272.7**	–
Investments	13	**–**	–	**5.0**	5.0
Deferred tax asset	14	**3.3**	0.2	**3.7**	0.6
		646.5	347.5	**652.5**	353.5
Current assets					
Inventories	15	**23.9**	20.8	**23.9**	20.8
Trade and other receivables	16	**27.1**	31.6	**27.1**	31.6
Cash and cash equivalents	17	**91.3**	88.2	**91.3**	88.2
		142.3	140.6	**142.3**	140.6
Total assets		**788.8**	488.1	**794.8**	494.1
LIABILITIES					
Current liabilities					
Trade and other payables	18	**(142.3)**	(126.5)	**(150.0)**	(134.2)
Current tax liability	19	**(11.8)**	(10.0)	**(11.8)**	(10.0)
Lease liabilities	11	**(48.8)**	–	**(48.8)**	–
Provisions	22	**(5.8)**	(8.7)	**(5.8)**	(8.7)
		(208.7)	(145.2)	**(216.4)**	(152.9)
Non-current liabilities					
Other payables	20	**(4.2)**	(4.7)	**(4.2)**	(4.7)
Defined benefit pension liability	21	**(0.6)**	(8.4)	**(0.6)**	(8.4)
Lease liabilities	11	**(226.9)**	–	**(226.9)**	–
Long-term provisions	22	**(1.6)**	(0.7)	**(1.6)**	(0.7)
		(233.3)	(13.8)	**(233.3)**	(13.8)
Total liabilities		**(442.0)**	(159.0)	**(449.7)**	(166.7)
Net assets		**346.8**	329.1	**345.1**	327.4
EQUITY					
Capital and reserves					
Issued capital	23	**2.0**	2.0	**2.0**	2.0
Share premium account		**13.5**	13.5	**13.5**	13.5
Capital redemption reserve	23	**0.4**	0.4	**0.4**	0.4
Retained earnings		**330.9**	313.2	**329.2**	311.5
Total equity attributable to equity holders of the Parent		**346.8**	329.1	**345.1**	327.4

The accounts on pages 94 to 131 were approved by the Board of Directors on 3 March 2020 and were signed on its behalf by:

Roger Whiteside
Richard Hutton

Company Registered Number 502851

Statements of changes in equity

for the 52 weeks ended 28 December 2019 (2018: 52 weeks ended 29 December 2018)

Group

52 weeks ended 29 December 2018

	Note	Attributable to equity holders of the Company				
		Issued capital IAS 17 £m	Share premium IAS 17 £m	Capital redemption reserve IAS 17 £m	Retained earnings IAS 17 £m	Total IAS 17 £m
Balance at 31 December 2017		2.0	13.5	0.4	283.3	299.2
Total comprehensive income for the year						
Profit for the financial year		–	–	–	65.7	65.7
Other comprehensive income		–	–	–	0.8	0.8
Total comprehensive income for the year		–	–	–	66.5	66.5
Transactions with owners, recorded directly in equity						
Sale of own shares		–	–	–	5.2	5.2
Purchase of own shares		–	–	–	(9.9)	(9.9)
Share-based payment transactions	21	–	–	–	2.0	2.0
Dividends to equity holders		–	–	–	(33.0)	(33.0)
Tax items taken directly to reserves	8	–	–	–	(0.9)	(0.9)
Total transactions with owners		–	–	–	(36.6)	(36.6)
Balance at 29 December 2018		2.0	13.5	0.4	313.2	329.1

52 weeks ended 28 December 2019

	Note	**Attributable to equity holders of the Company**				
		Issued capital IFRS 16 £m	**Share premium IFRS 16 £m**	**Capital redemption reserve IFRS 16 £m**	**Retained earnings IFRS 16 £m**	**Total IFRS 16 £m**
Balance at 30 December 2018		**2.0**	**13.5**	**0.4**	**313.2**	**329.1**
Total comprehensive income for the year						
Profit for the financial year		**–**	**–**	**–**	**87.0**	**87.0**
Other comprehensive income		**–**	**–**	**–**	**2.5**	**2.5**
Total comprehensive income for the year		**–**	**–**	**–**	**89.5**	**89.5**
Transactions with owners, recorded directly in equity						
Sale of own shares		**–**	**–**	**–**	**4.9**	**4.9**
Purchase of own shares		**–**	**–**	**–**	**(11.8)**	**(11.8)**
Share-based payment transactions	21	**–**	**–**	**–**	**4.4**	**4.4**
Dividends to equity holders		**–**	**–**	**–**	**(72.1)**	**(72.1)**
Tax items taken directly to reserves	8	**–**	**–**	**–**	**2.8**	**2.8**
Total transactions with owners		**–**	**–**	**–**	**(71.8)**	**(71.8)**
Balance at 28 December 2019		**2.0**	**13.5**	**0.4**	**330.9**	**346.8**

Parent Company

52 weeks ended 29 December 2018

	Note	Attributable to equity holders of the Company				
		Issued capital IAS 17 £m	Share premium IAS 17 £m	Capital redemption reserve IAS 17 £m	Retained earnings IAS 17 £m	Total IAS 17 £m
Balance at 31 December 2017		2.0	13.5	0.4	281.6	297.5
Total comprehensive income for the year						
Profit for the financial year	7	–	–	–	65.7	65.7
Other comprehensive income		–	–	–	0.8	0.8
Total comprehensive income for the year		–	–	–	66.5	66.5
Transactions with owners, recorded directly in equity						
Sale of own shares		–	–	–	5.2	5.2
Purchase of own shares		–	–	–	(9.9)	(9.9)
Share-based payment transactions	21	–	–	–	2.0	2.0
Dividends to equity holders		–	–	–	(33.0)	(33.0)
Tax items taken directly to reserves	8	–	–	–	(0.9)	(0.9)
Total transactions with owners		–	–	–	(36.6)	(36.6)
Balance at 29 December 2018		2.0	13.5	0.4	311.5	327.4

52 weeks ended 28 December 2019

	Note	**Attributable to equity holders of the Company**				
		Issued capital IFRS 16 £m	**Share premium IFRS 16 £m**	**Capital redemption reserve IFRS 16 £m**	**Retained earnings IFRS 16 £m**	**Total IFRS 16 £m**
Balance at 30 December 2018		**2.0**	**13.5**	**0.4**	**311.5**	**327.4**
Total comprehensive income for the year						
Profit for the financial year	7	**–**	**–**	**–**	**87.0**	**87.0**
Other comprehensive income		**–**	**–**	**–**	**2.5**	**2.5**
Total comprehensive income for the year		**–**	**–**	**–**	**89.5**	**89.5**
Transactions with owners, recorded directly in equity						
Sale of own shares		**–**	**–**	**–**	**4.9**	**4.9**
Purchase of own shares		**–**	**–**	**–**	**(11.8)**	**(11.8)**
Share-based payment transactions	21	**–**	**–**	**–**	**4.4**	**4.4**
Dividends to equity holders		**–**	**–**	**–**	**(72.1)**	**(72.1)**
Tax items taken directly to reserves	8	**–**	**–**	**–**	**2.8**	**2.8**
Total transactions with owners		**–**	**–**	**–**	**(71.8)**	**(71.8)**
Balance at 28 December 2019		**2.0**	**13.5**	**0.4**	**329.2**	**345.1**

Statements of cash flows

for the 52 weeks ended 28 December 2019 (2018: 52 weeks ended 29 December 2018)

		Group		Parent Company	
	Note	**2019 IFRS 16 £m**	2018 IAS 17 £m	**2019 IFRS 16 £m**	2018 IAS 17 £m
Operating activities					
Cash generated from operations (see below)		**246.0**	152.2	**246.0**	152.2
Income tax paid		**(20.3)**	(16.1)	**(20.3)**	(16.1)
Interest paid on lease liabilities		**(6.6)**	–	**(6.6)**	–
Net cash inflow from operating activities		**219.1**	136.1	**219.1**	136.1
Investing activities					
Acquisition of property, plant and equipment		**(85.4)**	(61.4)	**(85.4)**	(61.4)
Acquisition of intangible assets		**(3.7)**	(5.2)	**(3.7)**	(5.2)
Proceeds from sale of property, plant and equipment		**1.4**	1.7	**1.4**	1.7
Interest received	6	**0.3**	0.2	**0.3**	0.2
Net cash outflow from investing activities		**(87.4)**	(64.7)	**(87.4)**	(64.7)
Financing activities					
Sale of own shares		**4.9**	5.2	**4.9**	5.2
Purchase of own shares		**(11.8)**	(9.9)	**(11.8)**	(9.9)
Dividends paid		**(72.1)**	(33.0)	**(72.1)**	(33.0)
Repayment of principal on lease liabilities		**(49.6)**	–	**(49.6)**	–
Net cash outflow from financing activities		**(128.6)**	(37.7)	**(128.6)**	(37.7)
Net increase in cash and cash equivalents		**3.1**	33.7	**3.1**	33.7
Cash and cash equivalents at the start of the year	17	**88.2**	54.5	**88.2**	54.5
Cash and cash equivalents at the end of the year	17	**91.3**	88.2	**91.3**	88.2

Cash flow statement – cash generated from operations

	Note	**2019 IFRS 16 £m**	2018 IAS 17 £m	**2019 IFRS 16 £m**	2018 IAS 17 £m
Profit for the financial year		**87.0**	65.7	**87.0**	65.7
Amortisation	10	**3.8**	3.0	**3.8**	3.0
Depreciation – property, plant and equipment	12	**56.1**	52.9	**56.1**	52.9
Depreciation – right-of-use assets	11	**50.8**	–	**50.8**	–
Impairment – property, plant and equipment	12	**0.3**	0.3	**0.3**	0.3
Impairment – right-of-use assets		**0.5**	–	**0.5**	–
Loss on sale of property, plant and equipment		**1.2**	1.6	**1.2**	1.6
Release of government grants		**(0.5)**	(0.5)	**(0.5)**	(0.5)
Share-based payment expenses	21	**4.4**	2.0	**4.4**	2.0
Finance expense	6	**6.5**	–	**6.5**	–
Income tax expense	8	**21.3**	16.9	**21.3**	16.9
Increase in inventories		**(3.1)**	(2.1)	**(3.1)**	(2.1)
Decrease in receivables		**4.5**	1.8	**4.5**	1.8
Increase in payables		**19.9**	12.9	**19.9**	12.9
Decrease in provisions		**(1.7)**	(4.0)	**(1.7)**	(4.0)
(Decrease)/increase in pension liability	21	**(5.0)**	1.7	**(5.0)**	1.7
Cash from operating activities		**246.0**	152.2	**246.0**	152.2

Notes to the consolidated accounts

Significant accounting policies

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

The accounts were authorised for issue by the Directors on 3 March 2020.

(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 £0.1 million, and are prepared on the historical cost basis except the defined benefit pension asset/liability, which is recognised as the fair value of the 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 4 to 83. The financial position of the Group, its cash flows and liquidity position are described in the financial review on pages 18 to 25. 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 except if mentioned otherwise. From 30 December 2018 the Group adopted IFRS 16 Leases. A number of other new standards were effective from 30 December 2018 but they do not have a material effect on the Group's accounts. The impact of the adoption of IFRS 16 is set out below.

IFRS 16 Leases

IFRS 16 introduced a single, on-balance sheet accounting model for lessees and sets out the principles for the recognition, measurement, presentation and disclosure of leases. As a result, the Group, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets, and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies.

The Group has applied IFRS 16 using the modified transition approach (IFRS 16, c8(a), c8(b)(ii)), whereby the initial right-of-use asset values were equal to the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate at 30 December 2018. Accordingly the comparative information presented for 2018 has not been restated – i.e. it is presented as previously reported under IAS 17 and related interpretations.

Changes to accounting policies

Details of the changes in accounting policies arising from the implementation of IFRS 16 are as follows:

Impact of IFRS 16 on accounts

The Group leases many assets including properties, cars and other equipment.

As a lessee, the Group previously classified leases as operating leases or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most leases, except for short-term leases and leases of low-value assets.

Significant accounting policies continued

(b) Basis of preparation continued

Changes to accounting policies continued

At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured in accordance with the accounting policy set out in accounting policy (g), using the Group's incremental borrowing rates as at 30 December 2018 which ranged from 2.25% to 2.78%. The weighted average rate used at 30 December 2018 was 2.41%. Right-of-use assets were measured at an amount equal to the corresponding lease liability, adjusted for any prepaid or accrued lease payments.

Previously, the Group determined at the inception of a contract whether an arrangement was or contained a lease under IFRIC 4 Determining Whether an Arrangement contains a Lease. The Group now assesses whether a contact is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

On transition to IFRS 16, the Group has used the following practical expedients permitted by the standard:

- Applying a single discount rate to a portfolio of leases with reasonably similar characteristics.
- Allowing the standard to be applied only to contracts that were previously identified as leases under IAS 17 and IFRIC 4. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 30 December 2018.
- Applying the recognition exemptions for lease contracts that, at 30 December 2018, had a lease term of 12 months or less and did not contain a purchase option, and lease contracts for which the underlying asset was of low value ('low-value assets').

Balance sheets

The impact on the balance sheets on transition is summarised below:

	30 December 2018 £m
Right-of-use assets	266.3
Lease liabilities	(267.8)
Prepayments (included in right-of-use assets)	(9.2)
Accruals (included in lease liabilities)	10.7
	0.0

The table below shows a reconciliation from the total operating lease commitment as disclosed at 29 December 2018 to the total lease liabilities recognised in the accounts immediately after transition:

	30 December 2018 £m
Operating lease commitment at 29 December 2018 as disclosed in the Group's accounts (see Note 24)	164.7
Discounted using the incremental borrowing rates at 30 December 2018	(30.1)
Recognition exemption for leases of low-value assets/short-term leases	(0.1)
Payments due for periods beyond break clauses	92.5
Renewal assumptions for expired leases where renewal is assumed	40.8
Total lease liabilities recognised on 30 December 2018	267.8

The Group presents right-of-use assets separately in the consolidated balance sheet. The carrying amounts of right-of-use assets are as below:

	Property £m	Plant and equipment £m	Total £m
Balance at 30 December 2018	262.1	4.2	266.3
Balance at 28 December 2019	269.4	3.3	272.7

The Group presents lease liabilities separately in the consolidated balance sheet.

Income statement
The Group has recognised depreciation and interest costs in respect of leases that were previously classified as operating leases in the income statement for the period, rather than rental charges. During the 52 weeks ended 28 December 2019, the Group recognised £50.6 million of depreciation charges, £0.5 million of impairment on right-of-use assets and £6.6 million of interest costs in respect of these leases.

Reserves
As the Group has chosen to implement IFRS 16 using the modified transition approach, whereby the initial right-of-use asset values were equal to the present value of the remaining lease payments there is no impact on reserves at the date of transition.

Cashflow statements
Whilst the implementation of IFRS 16 is an accounting change only and does not impact cash flows it has necessitated some recategorisation within the cash flow statements between operating and financing activities.

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 30 to 33 of the strategic report. In addition the financial review on pages 20 to 22 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.

Determining the rate used to discount lease payments
At the commencement date of property leases the lease liability is calculated by discounting the lease payments. The discount rate used should be the interest rate implicit in the lease. However, if that rate cannot be readily determined, which is generally the case for property leases, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. As the Group has no external borrowings from which to determine that rate, judgement is required to determine the incremental borrowing rate to be used. At the start of each month a risk-free rate is obtained, linked to the length of the lease and an adjustment is then made to reflect credit risk. For the lease liabilities at 28 December 2019 a 0.1 per cent change in the discount rate used would have adjusted the total liabilities by £1.0 million.

Determining the lease term of property leases
At the commencement date of property leases the Group normally determines the lease term to be the full term of the lease, assuming that any option to break or extend the lease is unlikely to be exercised and it is not reasonably certain that the Group will continue in occupation for any period beyond the lease term. Leases are regularly reviewed and will be revalued if it becomes likely that a break clause or option to extend the lease is exercised.

Previously, the Group classified property leases as operating leases under IAS 17. The leases typically run for a period of ten or 15 years. In England, the majority of its property leases are protected by the Landlord and Tenant Act 1954 ('LTA') which affords protection to the lessee at the end of an existing lease term.

Significant accounting policies continued

Determining the lease term of property leases continued

Key estimates and judgements continued

Judgement is required in respect of those property leases where the current lease term has expired but the Group remains in negotiation with the landlord for potential renewal. Where the Group believes renewal to be reasonably certain and the lease is protected by the LTA it will be treated as having been renewed at the date of termination of the previous lease term and on the same terms as the previous lease. Where renewal is not considered to be reasonably certain the leases are included with a lease term which reflects the anticipated notice period under relevant legislation. The lease will be revalued when it is renewed to take account of the new terms. During the current year the financial effect of applying this judgement was an increase in recognised lease liabilities and right-of-use assets of £41.3 million.

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. In 2018 they also include the charge in respect of guaranteed minimum pension equalisation. Further details of items treated as exceptional are given in Note 4.

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, 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 2019 are given in Notes 4 and 21.

(c) Basis of consolidation

The consolidated accounts include the results of Greggs plc and its subsidiary undertakings for the 52 weeks ended 28 December 2019. The comparative period is the 52 weeks ended 29 December 2018.

(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 unless it can be clearly demonstrated that this is not the case. At the year end the Group has one associate which has not been consolidated on the grounds of materiality (see Note 13).

(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 recategorised and amortisation commences when the assets are available for use.

(g) Leases

(i) Lease recognition

At inception of a contract the Group assesses whether a contract is or contains a lease. A contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

For leases of properties in which the Group is a lessee, it has applied the practical expedient permitted by IFRS 16 and will account for each lease component and any associated non-lease components as a single lease component.

(ii) Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease. Right-of-use assets are measured at cost, less accumulated depreciation and impairment losses and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, adjusted for any lease payments made at or before the commencement date, less any lease incentives received. Right-of-use assets are depreciated over the shorter of the asset's useful life or the lease term on a straight-line basis. Right-of-use assets are subject to, and reviewed regularly for, impairment. Depreciation on right-of-use assets is included in selling and distribution costs in the consolidated income statement.

(iii) Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of the lease payments to be made over the lease term. Lease payments include fixed payments less any lease incentives receivable and variable lease payments that depend on an index or rate. Any variable lease payments that do not depend on an index or rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. Generally the Group uses its incremental borrowing rate as the discount rate. As it has no external borrowings, judgement is required to determine an approximation, calculated based on UK Government Gilt rates of an appropriate duration and adjusted by an indicative credit premium.

After the commencement date, the lease liability is increased to reflect the accretion of interest and reduced for lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term or a change in the fixed lease payments. Interest charges are included in finance costs in the consolidated income statement.

(iv) Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases of machinery and equipment that have a lease term of less than 12 months and leases of low-value assets. Lease payments relating to short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

(v) Variable lease payments

Some property leases contain variable payment terms that are linked to sales generated from a shop. For individual shops, up to 100 per cent of lease payments are on the basis of variable payments terms. These payments are recognised in the income statement in the period in which the condition that triggers them occurs.

Significant accounting policies continued

(vi) 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.

(h) 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 (l)). 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 cost 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	20 to 40 years
Short leasehold properties	Ten years or length of lease if shorter
Plant, machinery, equipment, vehicles, fixtures and fittings	Three to ten 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 recategorised and depreciation commences when the assets are available for use.

(i) 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.

(j) 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.

(k) 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.

(l) 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.

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.

(m) Non-current assets held for sale

Non-current assets that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets are remeasured in accordance with the Group and Company's accounting policies. Thereafter generally the assets are measured at the lower of their carrying amount and fair value less cost to sell. Once classified as held for sale assets are no longer depreciated or amortised.

(n) Share capital and reserves

(i) Repurchase of share capital

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

(ii) Dividends

Dividends are recognised as a liability when the Company has an obligation to pay and the dividend is no longer at the Company's discretion.

(iii) Distributable reserves

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

(o) 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 treasury shares held by the EBT are stated at cost and deducted from total equity.

(p) 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.

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

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.

Significant accounting policies continued

(p) Employee benefits continued

(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.

(q) 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.

(r) 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 delivered to franchisees. Additional franchise royalty fee income, generally calculated as a percentage of gross sales income, is recognised in line with the franchisees' product sales 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.

(s) 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.

(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. The amount of current tax payable is the best estimate of the tax amount expected to be paid that reflects uncertainty related to income taxes, if any. Taxable profit differs from profit as reported in the income statement because some items of income or expense are taxable or deductible in different years or may never be taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable in the future arising from temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used in the calculation of taxable profit. It is accounted for using the balance sheet liability method. The amount of deferred tax recognised is based on the expected manner of realisation or settlement of the carrying amounts of assets and liabilities, using tax rates that are expected to apply when the temporary differences reverse, based on rates enacted or substantively enacted at the balance sheet date.

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

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

(v) Research and development

The Company continuously strives to improve its products and processes through technical and other innovation. Such expenditure is typically expensed to the income statement when the related intellectual property is not capable of being formalised or capitalised within intangible assets.

Significant accounting policies continued

(w) IFRSs available for early adoption not yet applied

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

– Amendments to References to the Conceptual Framework in IFRS Standards (effective date 1 January 2020).
– Amendments to IFRS 3: Definition of a Business (effective date to be confirmed).
– Amendments to IAS 1 and IAS 8: Definition of Material (effective date 1 January 2020).

Their adoption is not expected to have a material effect on the accounts.

1. Segmental analysis

The Board is considered to be the 'chief operating decision-maker' of the Group in the context of the IFRS 8 definition. 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 and through franchise partners. 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 in the table 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.

	2019 Retail Company-managed shops £m	2019 Other £m	2019 Total £m	2018 Retail Company-managed shops £m	2018 Other £m	2018 Total £m
Revenue	**1,073.8**	**94.1**	**1,167.9**	949.2	80.1	1,029.3
Trading profit*	**191.2**	**19.9**	**211.1**	151.2	14.4	165.6
Overheads including profit share			**(90.4)**			(75.8)
Operating profit before exceptional items			**120.7**			89.8
Finance expense			**(6.5)**			–
Profit before tax (excluding exceptional items)			**114.2**			89.8
Exceptional items (see Note 4)			**(5.9)**			(7.2)
Profit before tax			**108.3**			82.6

* Trading profit is defined as gross profit less supply chain costs and retail 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 29. 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 material 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. The calculation of the Group's lease liabilities and the defined benefit pension scheme liability would be impacted by fluctuations in interest rates – see Notes 8 and 21.

Equity price risk

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

Capital management

The Board defines capital as the equity of the Group. The Group has remained net cash positive with funding requirements met by cash generated from retail operations. The Board considers that it is not currently appropriate to take on structural debt given the leverage of the leasehold shop estate and working capital requirements. The Board's policy on dividend levels is to pursue a progressive ordinary 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 Employee Benefit Trust also purchase shares for future satisfaction of employee share options.

2. Financial risk management continued

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 28 December 2019 (2018: £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):

	2019 IFRS16 £m	2018 IAS17 £m
Amortisation of intangible assets	**3.8**	3.0
Depreciation of owned property, plant and equipment	**56.1**	52.9
Depreciation of right-of-use assets	**50.8**	–
Impairment of owned property, plant and equipment	**0.3**	0.3
Impairment of right-of-use assets	**0.5**	–
Loss on disposal of fixed assets	**1.2**	1.6
Release of government grants	**(0.5)**	(0.5)
Payments under operating leases	**–**	54.3
Research and development expenditure	**0.3**	0.3

Auditor's remuneration for the audit of these accounts amounted to £165,000 (2018: £164,000) and for other assurance services £15,000 (2018: £15,000). 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

		2019 £m	2018 £m
Cost of sales			
Supply chain restructuring	– redundancy	**0.7**	(0.2)
	– depreciation and asset write-off	**0.1**	0.7
	– transfer of operations	**5.0**	4.9
	– property-related	**0.1**	0.5
		5.9	5.9
Distribution and selling			
Prior year items	– property-related	**–**	(0.4)
Administrative expenses			
Pension scheme	– guaranteed minimum pension equalisation	**–**	1.7
Total exceptional items		**5.9**	7.2

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 2019 and 2018 the costs related to accelerated depreciation and the expenses incurred as a result of further consolidation of manufacturing into dedicated centres of excellence, including additional running costs. The programme of investment is due to be completed in 2021.

Prior year items
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 arose 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 judgment involving Lloyds Banking Group defined benefit pension schemes. The judgment ruled that the schemes should equalise benefits for men and women in relation to GMP benefits. The judgment has implications for many defined benefit schemes including that operated by the Company. We have worked with our actuarial advisers to understand the implications of the judgment for the Greggs scheme and the £1.7 million 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. Lloyds Banking Group have appealed the High Court Judgment – this appeal is expected to be heard in 2020. 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.

In 2018 the Directors 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:

	2019 Number	2018 Number
Management	**702**	710
Administration	**368**	454
Production	**2,994**	3,023
Shop	**19,641**	18,283
	23,705	22,470

The aggregate costs of these persons were as follows:

	Note	2019 £m	2018 £m
Wages and salaries		**357.8**	328.3
Compulsory social security contributions		**25.5**	21.2
Pension costs – defined benefit plan	21	**–**	1.7
Pension costs – defined contribution plans	21	**22.6**	15.1
Equity-settled transactions (including employer's NI costs)	21	**4.4**	2.0
		410.3	368.3

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:

	2019 £m	2018 £m
Cost of sales	**3.3**	2.6
Distribution and selling costs	**7.9**	6.2
Administrative expenses	**1.6**	1.2
	12.8	10.0

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:

	2019 £m	2018 £m
Salaries and fees	**2.9**	2.8
Taxable benefits	**0.1**	0.1
Annual bonus (including profit share)	**2.3**	1.3
Post-retirement benefits	**0.4**	0.3
Equity – settled transactions	**3.0**	1.2
	8.7	5.7

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

	2019 £m	2018 £m
Aggregate Directors' remuneration	**2.1**	1.6
Aggregate amount of gains on exercise of share options	**1.0**	0.8
	3.1	2.4

The number of Directors in the defined contribution pension scheme and in the defined benefit pension scheme during the year was one (2018: one).

6. Finance expense

	Note	**2019 IFRS 16 £m**	2018 IAS 17 £m
Interest income on cash balances		**0.5**	0.2
Foreign exchange loss		**(0.2)**	–
Interest on lease liabilities		**(6.6)**	–
Net interest related to defined benefit pension obligation	21	**(0.2)**	(0.2)
		(6.5)	–

7. Profit attributable to Greggs plc

Of the Group profit for the year, £87.0 million (2018: £65.7 million) is dealt with in the accounts of the Parent Company. The Company has taken advantage of the exemption permitted by s408 of the Companies Act 2006 from presenting its own income statement.

8. Income tax expense

Recognised in the income statement

	2019 Excluding exceptional items £m	2019 Exceptional items £m	2019 Total £m	2018 Excluding exceptional items £m	2018 Exceptional items £m	2018 Total £m
Current tax						
Current year	**23.3**	**(1.1)**	**22.2**	18.9	(0.9)	18.0
Adjustment for prior years	**(0.1)**	**–**	**(0.1)**	(0.6)	–	(0.6)
	23.2	**(1.1)**	**22.1**	18.3	(0.9)	17.4
Deferred tax						
Origination and reversal of temporary differences	**(0.2)**	**–**	**(0.2)**	(0.2)	(0.4)	(0.6)
Adjustment for prior years	**(0.6)**	**–**	**(0.6)**	0.1	–	0.1
	(0.8)	**–**	**(0.8)**	(0.1)	(0.4)	(0.5)
Total income tax expense in income statement	**22.4**	**(1.1)**	**21.3**	18.2	(1.3)	16.9

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 (2018: 19 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

	2019	2019 £m	2018	2018 £m
Profit before tax		**108.3**		82.6
Income tax using the domestic corporation tax rate	**19.00%**	**20.6**	19.00%	15.7
Items not (taxable)/deductible for tax purposes	**(0.18%)**	**(0.2)**	0.26%	0.2
Non-tax-deductible depreciation	**1.48%**	**1.6**	1.87%	1.6
Profit on disposal of non-tax-deductible assets	**–**	**–**	(0.08%)	(0.1)
Adjustment for prior years	**(0.63%)**	**(0.7)**	(0.62%)	(0.5)
Total income tax expense in income statement	**19.67%**	**21.3**	20.43%	16.9

Underlying (excluding exceptional items)

	2019	2019 £m	2018	2018 £m
Profit before tax		**114.2**		89.8
Income tax using the domestic corporation tax rate	**19.00%**	**21.7**	19.00%	17.1
Items not (taxable)/deductible for tax purposes	**(0.18%)**	**(0.2)**	0.18%	0.2
Non-tax-deductible depreciation	**1.40%**	**1.6**	1.73%	1.6
Profit on disposal of non-tax-deductible assets	**–**	**–**	(0.08%)	(0.1)
Adjustment for prior years	**(0.61%)**	**(0.7)**	(0.57%)	(0.5)
Total income tax expense in income statement	**19.61%**	**22.4**	20.26%	18.3

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 are therefore expected to do so at 19 per cent and any timing differences which exist at 1 April 2020 are expected to reverse at 17 per cent.

The Government has indicated that the rate of corporation tax may be maintained at 19 per cent rather than reducing to 17 per cent. Should legislation reverting rates to 19 per cent be substantively enacted, any timing differences which exist at that point would reverse at 19 per cent rather than 17 per cent and deferred tax balances would be revalued accordingly.

Tax recognised in other comprehensive income or directly in equity

	2019 Current tax £m	**2019 Deferred tax £m**	**2019 Total £m**	2018 Total £m
Debit/(credit):				
Relating to equity-settled transactions	**–**	**(2.8)**	**(2.8)**	0.9
Relating to defined benefit pension plans – remeasurement gains	**–**	**0.5**	**0.5**	0.2
	–	**(2.3)**	**(2.3)**	1.1

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 28 December 2019 is calculated by dividing profit attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the 52 weeks ended 28 December 2019 as calculated below.

Diluted earnings per share

Diluted earnings per share for the 52 weeks ended 28 December 2019 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), in issue during the 52 weeks ended 28 December 2019 as calculated below.

Profit attributable to ordinary shareholders

	2019 Excluding exceptional items IFRS 16 £m	**2019 Exceptional items IFRS 16 £m**	**2019 Total IFRS 16 £m**	2018 Excluding exceptional items IAS 17 £m	2018 Exceptional items IAS 17 £m	2018 Total IAS 17 £m
Profit for the financial year attributable to equity holders of the Parent	**91.8**	**(4.8)**	**87.0**	71.6	(5.9)	65.7
Basic earnings per share	**91.0p**	**(4.8p)**	**86.2p**	71.1p	(5.9p)	65.2p
Diluted earnings per share	**89.7p**	**(4.7p)**	**85.0p**	70.3p	(5.8p)	64.5p

Weighted average number of ordinary shares

	2019 Number	2018 Number
Issued ordinary shares at start of year	**101,155,901**	101,155,901
Effect of own shares held	**(342,748)**	(462,731)
Weighted average number of ordinary shares during the year	**100,813,153**	100,693,170
Effect of share options in issue	**1,505,456**	1,161,042
Weighted average number of ordinary shares (diluted) during the year	**102,318,609**	101,854,212

10. Intangible assets
Group and Parent Company

	Software £m	Assets under development £m	Total £m
Cost			
Balance at 31 December 2017	20.7	0.8	21.5
Additions	1.5	3.7	5.2
Transfers	1.6	(1.6)	–
Balance at 29 December 2018	23.8	2.9	26.7
Balance at 30 December 2018	**23.8**	**2.9**	**26.7**
Additions	**2.5**	**1.2**	**3.7**
Transfers	**2.6**	**(2.6)**	**–**
Balance at 28 December 2019	**28.9**	**1.5**	**30.4**
Amortisation			
Balance at 31 December 2017	6.8	–	6.8
Amortisation charge for the year	3.0	–	3.0
Balance at 29 December 2018	9.8	–	9.8
Balance at 30 December 2018	**9.8**	**–**	**9.8**
Amortisation charge for the year	**3.8**	**–**	**3.8**
Balance at 28 December 2019	**13.6**	**–**	**13.6**
Carrying amounts			
At 31 December 2017	13.9	0.8	14.7
At 29 December 2018	14.0	2.9	16.9
At 30 December 2018	**14.0**	**2.9**	**16.9**
At 28 December 2019	**15.3**	**1.5**	**16.8**

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

11. Leases
Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

Group and Parent Company

	2019 IFRS 16 £m	2018 IAS 17* £m
Right-of-use assets		
Land and buildings	**269.4**	–
Plant and equipment	**3.3**	–
	272.7	–

	2019 IFRS 16 £m	2018 IAS 17* £m
Lease liabilities		
Current	**48.8**	–
Non-current	**226.9**	–
	275.7	–

The remaining contractual maturities of the lease liabilities, which are gross and undiscounted, are as follows:

	2019 IFRS 16 £m	2018 IAS 17* £m
Less than one year	**51.0**	–
One to two years	**48.5**	–
Two to three years	**42.5**	–
Three to four years	**35.8**	–
Four to five years	**31.9**	–
More than five years	**94.6**	–
Total undiscounted lease liability	**304.3**	–

Additions to right-of-use assets during the 52 weeks ended 28 December 2019 were £45.5 million.

Amounts recognised in the income statement

	2019 IFRS 16 £m	2018 IAS 17* £m
Depreciation charge on right-of-use assets		
Land and buildings	**48.9**	–
Plant and equipment	**1.9**	–
	50.8	–
Interest expense (included in finance cost)	**6.6**	–
Expense included for short-term leases (included in cost of sales and administrative expenses)	**2.2**	–
Expense related to lease of low-value assets that are not shown above as short-term leases (included in administrative expenses)	**0.2**	–
Expense related to variable lease payments not included in lease liabilities (included in selling and distribution)	**0.2**	–

* In 2018 the Group recognised leases under IAS 17. For adjustments recognised on the implementation of IFRS 16 on 30 December 2018 see basis of preparation on pages 99 to 102.

The total cash outflow for leases in 2019 was £56.2 million.

12. Property, plant and equipment

Group

	Land and buildings £m	Plant and equipment £m	Fixtures and fittings £m	Assets under construction £m	Total £m
Cost					
Balance at 31 December 2017	147.2	137.2	306.7	8.0	599.1
Additions	6.1	26.6	33.1	2.0	67.8
Disposals	(1.0)	(16.1)	(18.7)	–	(35.8)
Transfers	0.8	7.2	–	(8.0)	–
Balance at 29 December 2018	153.1	154.9	321.1	2.0	631.1
Balance at 30 December 2018	**153.1**	**154.9**	**321.1**	**2.0**	**631.1**
Additions	**12.2**	**28.1**	**36.0**	**6.0**	**82.3**
Disposals	**(0.6)**	**(14.9)**	**(19.3)**	**–**	**(34.8)**
Transfers	**1.6**	**0.5**	**–**	**(2.1)**	**–**
Balance at 28 December 2019	**166.3**	**168.6**	**337.8**	**5.9**	**678.6**
Depreciation					
Balance at 31 December 2017	40.0	93.5	146.4	–	279.9
Depreciation charge for the year	4.3	11.8	36.8	–	52.9
Impairment charge for the year	–	0.1	0.4	–	0.5
Impairment release for the year	–	–	(0.2)	–	(0.2)
Disposals	(0.2)	(15.5)	(16.7)	–	(32.4)
Balance at 29 December 2018	44.1	89.9	166.7	–	300.7
Balance at 30 December 2018	**44.1**	**89.9**	**166.7**	**–**	**300.7**
Depreciation charge for the year	**4.6**	**13.3**	**38.2**	**–**	**56.1**
Impairment charge for the year	**–**	**0.5**	**0.4**	**–**	**0.9**
Impairment release for the year	**–**	**–**	**(0.6)**	**–**	**(0.6)**
Disposals	**(0.5)**	**(14.4)**	**(17.3)**	**–**	**(32.2)**
Balance at 28 December 2019	**48.2**	**89.3**	**187.4**	**–**	**324.9**
Carrying amounts					
At 31 December 2017	107.2	43.7	160.3	8.0	319.2
At 29 December 2018	109.0	65.0	154.4	2.0	330.4
At 30 December 2018	**109.0**	**65.0**	**154.4**	**2.0**	**330.4**
At 28 December 2019	**118.1**	**79.3**	**150.4**	**5.9**	**353.7**

Assets are reviewed for impairment on a regular basis and provision made where necessary. For shops where there is an indication of impairment (assessed based upon shop performance), a discounted cashflow is calculated for each shop using historic cash flows, which management considers a reasonable approximation of a forecast for future cash flows. These calculations take account of:

- attributable overheads;
- a zero per cent growth rate;
- the Group's cost of capital of 5.4 per cent (which reflects the lease liabilities now recognised on the Group's balance sheet as a result of IFRS 16), 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 (including the right-of-use asset relating to the lease) is impaired to the extent that the net present value of the cash flows 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. As at the end of 2019 the timing of the resolution of these factors remains 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 £m	Plant and equipment £m	Fixtures and fittings £m	Assets under construction £m	Total £m
Cost					
Balance at 31 December 2017	147.7	137.7	307.2	8.0	600.6
Additions	6.1	26.6	33.1	2.0	67.8
Disposals	(1.0)	(16.1)	(18.7)	–	(35.8)
Transfers	0.8	7.2	–	(8.0)	–
Balance at 29 December 2018	153.6	155.4	321.6	2.0	632.6
Balance at 30 December 2018	**153.6**	**155.4**	**321.6**	**2.0**	**632.6**
Additions	**12.2**	**28.1**	**36.0**	**6.0**	**82.3**
Disposals	**(0.6)**	**(14.9)**	**(19.3)**	**–**	**(34.8)**
Transfers	**1.6**	**0.5**	**–**	**(2.1)**	**–**
Balance at 28 December 2019	**166.8**	**169.1**	**338.3**	**5.9**	**680.1**
Depreciation					
Balance at 31 December 2017	40.3	93.7	146.8	–	280.8
Depreciation charge for the year	4.3	11.8	36.8	–	52.9
Impairment charge for the year	–	0.1	0.4	–	0.5
Impairment release for the year	–	–	(0.2)	–	(0.2)
Disposals	(0.2)	(15.5)	(16.7)	–	(32.4)
Balance at 29 December 2018	44.4	90.1	167.1	–	301.6
Balance at 30 December 2018	**44.4**	**90.1**	**167.1**	**–**	**301.6**
Depreciation charge for the year	**4.6**	**13.3**	**38.2**	**–**	**56.1**
Impairment charge for the year	**–**	**0.5**	**0.4**	**–**	**0.9**
Impairment release for the year	**–**	**–**	**(0.6)**	**–**	**(0.6)**
Disposals	**(0.5)**	**(14.4)**	**(17.3)**	**–**	**(32.2)**
Balance at 28 December 2019	**48.5**	**89.5**	**187.8**	**–**	**325.8**
Carrying amounts					
At 31 December 2017	107.4	44.0	160.4	8.0	319.8
At 29 December 2018	109.2	65.3	154.5	2.0	331.0
At 30 December 2018	**109.2**	**65.3**	**154.5**	**2.0**	**331.0**
At 28 December 2019	**118.3**	**79.6**	**150.5**	**5.9**	**354.3**

Land and buildings

The carrying amount of land and buildings comprises:

	Group		Parent Company	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Freehold property	**116.9**	107.6	**117.1**	107.8
Short leasehold property	**1.2**	1.4	**1.2**	1.4
	118.1	109.0	**118.3**	109.2

13. Investments

Non-current investments

Parent Company

	Shares in subsidiary undertakings £m
Cost	
Balance at 31 December 2017, 29 December 2018 and 28 December 2019	**5.8**
Impairment	
Balance at 31 December 2017, 28 December 2018 and 28 December 2019	**0.8**
Carrying amount	
Balance at 31 December 2017, 29 December 2018, 30 December 2018 and 28 December 2019	**5.0**

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

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

* 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 Road, 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 s480 of Companies Act 2006 relating to dormant companies, from the requirement to have their accounts audited.

14. Deferred tax assets and liabilities

Group

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2019 £m	2018 £m	**2019 £m**	2018 £m	**2019 £m**	2018 £m
Property, plant and equipment	**–**	–	**(2.8)**	(3.2)	**(2.8)**	(3.2)
Employee benefits	**5.4**	3.2	**–**	–	**5.4**	3.2
Short-term temporary differences	**0.7**	0.2	**–**	–	**0.7**	0.2
Tax assets/(liabilities)	**6.1**	3.4	**(2.8)**	(3.2)	**3.3**	0.2

The movements in temporary differences during the 52 weeks ended 29 December 2018 were as follows:

	Balance at 31 December 2017 £m	Recognised in income £m	Recognised in equity £m	Balance at 29 December 2018 £m
Property, plant and equipment	(3.8)	0.6	–	(3.2)
Employee benefits	4.1	0.2	(1.1)	3.2
Short-term temporary differences	0.5	(0.3)	–	0.2
	0.8	0.5	(1.1)	0.2

The movements in temporary differences during the 52 weeks ended 28 December 2019 were as follows:

	Balance at 30 December 2018 £m	**Recognised in income £m**	**Recognised in equity £m**	**Balance at 28 December 2019 £m**
Property, plant and equipment	**(3.2)**	**0.4**	**–**	**(2.8)**
Employee benefits	**3.2**	**(0.1)**	**2.3**	**5.4**
Short-term temporary differences	**0.2**	**0.5**	**–**	**0.7**
	0.2	**0.8**	**2.3**	**3.3**

Parent Company

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2019 £m	2018 £m	**2019 £m**	2018 £m	**2019 £m**	2018 £m
Property, plant and equipment	**–**	–	**(2.4)**	(2.8)	**(2.4)**	(2.8)
Employee benefits	**5.4**	3.2	**–**	–	**5.4**	3.2
Short-term temporary differences	**0.7**	0.2	**–**	–	**0.7**	0.2
Tax assets/(liabilities)	**6.1**	3.4	**(2.4)**	(2.8)	**3.7**	0.6

The movements in temporary differences during the 52 weeks ended 29 December 2018 were as follows:

	Balance at 31 December 2017 £m	Recognised in income £m	Recognised in equity £m	Balance at 29 December 2018 £m
Property, plant and equipment	(3.4)	0.6	–	(2.8)
Employee benefits	4.1	0.2	(1.1)	3.2
Short-term temporary differences	0.5	(0.3)	–	0.2
	1.2	0.5	(1.1)	0.6

The movements in temporary differences during the 52 weeks ended 28 December 2019 were as follows:

	Balance at 30 December 2018 £m	**Recognised in income £m**	**Recognised in equity £m**	**Balance at 28 December 2019 £m**
Property, plant and equipment	**(2.8)**	**0.4**	**–**	**(2.4)**
Employee benefits	**3.2**	**(0.1)**	**2.3**	**5.4**
Short-term temporary differences	**0.2**	**0.5**	**–**	**0.7**
	0.6	**0.8**	**2.3**	**3.7**

15. Inventories

	Group and Parent Company	
	2019 £m	2018 £m
Raw materials and consumables	**19.4**	15.2
Work in progress	**4.5**	5.6
	23.9	20.8

16. Trade and other receivables

	Group and Parent Company	
	2019 £m	2018 £m
Trade receivables	**15.8**	15.3
Other receivables	**6.0**	3.0
Prepayments	**5.3**	13.3
	27.1	31.6

At 28 December 2019 the allowance for bad debts was immaterial.

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

	Group and Parent Company	
	2019 £m	2018 £m
Not past due date	**14.5**	11.4
Past due 1-30 days	**1.1**	3.9
Past due 31-90 days	**0.2**	–
	15.8	15.3

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.

17. Cash and cash equivalents

	Group and Parent Company	
	2019 £m	2018 £m
Cash and cash equivalents	**91.3**	88.2

18. Trade and other payables

	Group		Parent Company	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Trade payables	**66.7**	55.8	**66.7**	55.8
Amounts owed to subsidiary undertakings	**–**	–	**7.7**	7.7
Other taxes and social security	**8.9**	8.1	**8.9**	8.1
Other payables	**31.9**	35.2	**31.9**	35.2
Accruals	**32.0**	25.5	**32.0**	25.5
Advance payments from customers	**2.3**	1.4	**2.3**	1.4
Deferred Government grants	**0.5**	0.5	**0.5**	0.5
	142.3	126.5	**150.0**	134.2

19. Current tax liability

The current tax liability of £11.8 million in the Group and the Parent Company (2018: Group and Parent Company £10.1 million) represents the estimated amount of income taxes payable in respect of current and prior years.

20. Non-current liabilities – other payables

	Group and Parent Company	
	2019 £m	2018 £m
Deferred Government grants	**4.2**	4.7

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.

21. Employee benefits

Defined benefit pension 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 pension 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	
	2019 £m	2018 £m
Defined benefit obligation	**(127.6)**	(113.5)
Fair value of plan assets	**127.0**	105.1
Net defined benefit pension liability	**(0.6)**	(8.4)

21. Employee benefits continued

Defined benefit plan continued

Liability for defined benefit pension obligations

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

	Group and Parent Company	
	2019 £m	2018 £m
Opening defined benefit pension obligation	**113.5**	122.2
Past service costs (see Note 4)	**–**	1.7
Interest cost	**3.1**	3.0
Remeasurement (gains)/losses:		
– changes in mortality assumptions	**(0.9)**	(0.6)
– changes in financial assumptions	**15.5**	(5.4)
– experience	**–**	(4.1)
Benefits paid	**(3.6)**	(3.3)
Closing defined benefit pension obligation	**127.6**	113.5

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

	Group and Parent Company	
	2019 £m	2018 £m
Opening fair value of plan assets	**105.1**	114.7
Net interest on plan assets	**2.9**	2.8
Remeasurement gains/(losses)	**17.6**	(9.1)
Company special contribution	**5.0**	–
Benefits paid	**(3.6)**	(3.3)
Closing fair value of plan assets	**127.0**	105.1

The costs charged in the income statement are as follows:

	Group	
	2019 £m	2018 £m
Interest expense on net defined benefit pension liability	**0.2**	0.2

The amounts recognised in other comprehensive income are as follows:

	Group	
	2019 £m	2018 £m
Remeasurement gains on defined benefit pension plans	**3.0**	1.0

Cumulative remeasurement 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 £20.1 million (2018: net losses of £23.1 million).

The fair value of the plan assets is as follows:

		Group and Parent Company	
		2019 £m	2018 £m
Equities	– UK	**46.5**	35.2
	– overseas	**36.7**	38.9
Bonds	– corporate	**12.7**	13.3
	– government	**23.7**	12.9
Absolute return funds		**1.1**	3.1
Cash and cash equivalents/other		**6.3**	1.7
		127.0	105.1

Principal actuarial assumptions (expressed as weighted averages):

	Group and Parent Company	
	2019	2018
Discount rate	**1.95%**	2.80%
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_2018 projections and a long-term rate of 1.25 per cent per annum. Under these assumptions, pensioners aged 65 now are expected to live for a further 22.1 years (2018: 22.0 years) if they are male and 23.7 years (2018: 23.9 years) if they are female. Members currently aged 45 are expected to live for a further 23.5 years (2018: 23.4 years) from age 65 if they are male and for a further 25.2 years (2018: 25.4 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	£2.4 million decrease
Inflation	0.1% decrease	£1.4 million decrease
Mortality rates	1 year decrease	£5.1 million 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.

During 2019 the Company made a special contribution of £5 million in support of the strategy adopted by the Trustees to achieve a buy-out of liabilities within ten years.

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 £22.6 million (2018: £15.1 million) 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.

21. Employee benefits continued

Share-based payments – Group and Parent Company continued

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 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
Executive Share Option Scheme 18	March 2015	Senior employees	1,022p	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	1,056p	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
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	1,088p	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	1,033p	246,219	Three years' service and EPS growth of 5-11% on average over those three years	10 years

	Date of grant	Employees entitled	Exercise price	Number of shares granted	Vesting conditions	Contractual life
Savings-Related Share Option Scheme 18	April 2017	All employees	807p	403,560	Three years' service	3.5 years
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	1,197p	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
Performance Share Plan 10	April 2019	Senior executives	£nil	128,534	Three years' service, EPS average annual growth of 5-11% over those three years and average annual ROCE of 24-28% over those three years	10 years
Executive Share Option Scheme 22	April 2019	Senior employees	1,830p	140,913	Three years' service, EPS average annual growth of 5-11% over those three years and average annual ROCE of 24-28% over those three years	10 years
Savings-Related Share Option Scheme 20	April 2019	All employees	1,484p	230,604	Three years' service	3.5 years

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

	2019		2018	
	Weighted average exercise price	**Number of options**	Weighted average exercise price	Number of options
Outstanding at the beginning of the year	**690p**	**2,744,060**	649p	2,893,489
Lapsed during the year	**870p**	**(200,762)**	889p	(109,157)
Exercised during the year	**697p**	**(700,853)**	605p	(795,620)
Granted during the year	**1200p**	**500,051**	786p	755,348
Outstanding at the end of the year	**781p**	**2,342,496**	690p	2,744,060
Exercisable at the end of the year	**546p**	**423,556**	548p	598,881

The options outstanding at 28 December 2019 have an exercise price in the range of £nil to £18.30 and have a weighted average contractual life of 5.25 years. The options exercised during the year had a weighted average market value of £20.13 (2018: £11.80).

21. Employee benefits continued

Share-based payments – Group and Parent Company continued

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 fair value per option granted and the assumptions used in these calculations are as follows:

	2019			2018		
	Performance Share Plan 10 April 2019	**Executive Share Option Scheme 22 April 2019**	**Savings Related Share Option Scheme 20 April 2019**	Performance Share Plan 9 March 2018	Executive Share Option Scheme 21 March 2018	Savings Related Share Option Scheme 19 April 2018
Fair value at grant date	**1726p**	**307p**	**469p**	1103p	183p	282p
Share price	**1830p**	**1830p**	**1855p**	1196p	1197p	1192p
Exercise price	**nil**	**1830p**	**1484p**	nil	1197p	954p
Expected volatility	**28.06%**	**28.06%**	**28.07%**	27.39%	27.39%	27.29%
Option life	**3 years**	**3 years**	**3 years**	3 years	3 years	3 years
Expected dividend yield	**1.95%**	**1.95%**	**1.92%**	2.70%	2.70%	2.70%
Risk-free rate	**0.75%**	**0.75%**	**0.64%**	0.87%	0.87%	0.94%

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:

	2019 £m	2018 £m
Share options granted in 2015	**–**	0.2
Share options granted in 2016	**0.3**	0.8
Share options granted in 2017	**1.9**	0.6
Share options granted in 2018	**1.5**	0.4
Share options granted in 2019	**0.7**	–
Total expense recognised as employee costs	**4.4**	2.0

22. Provisions

	Group and Parent Company									
	2019 Dilapidations £m	**2019 National insurance £m**	**2019 Redundancy £m**	**2019 Other £m**	**2019 Total £m**	2018 Dilapidations £m	2018 National insurance £m	2018 Redundancy £m	2018 Other £m	2018 Total £m
Balance at start of year	**2.8**	**0.8**	**3.5**	**2.3**	**9.4**	2.9	1.2	7.2	2.1	13.4
Additional provision in the year:										
– ordinary	**1.1**	**2.1**	**0.8**	**–**	**4.0**	1.0	–	–	1.7	2.7
– exceptional	**–**	**–**	**0.7**	**–**	**0.7**	–	–	–	–	–
Utilised in year:										
– ordinary	**(0.4)**	**(0.6)**	**(0.5)**	**(0.1)**	**(1.6)**	(0.4)	(0.4)	–	(0.1)	(0.9)
– exceptional	**–**	**–**	**(3.4)**	**–**	**(3.4)**	(0.1)	–	(3.5)	–	(3.6)
Provisions reversed during the year:										
– ordinary	**(1.0)**	**–**	**–**	**(0.5)**	**(1.5)**	(0.6)	–	–	(1.0)	(1.6)
– exceptional	**(0.2)**	**–**	**–**	**–**	**(0.2)**	–	–	(0.2)	(0.4)	(0.6)
Balance at end of year	**2.3**	**2.3**	**1.1**	**1.7**	**7.4**	2.8	0.8	3.5	2.3	9.4
Included in current liabilities	**1.5**	**1.7**	**1.1**	**1.5**	**5.8**	2.6	0.7	3.5	1.9	8.7
Included in non-current liabilities	**0.8**	**0.6**	**–**	**0.2**	**1.6**	0.2	0.1	–	0.4	0.7
	2.3	**2.3**	**1.1**	**1.7**	**7.4**	2.8	0.8	3.5	2.3	9.4

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

Ordinary	**2.1**	**2.3**	**0.3**	**1.5**	**6.2**	2.4	0.8	–	2.1	5.3
Exceptional	**0.2**	**–**	**0.8**	**0.2**	**1.2**	0.4	–	3.5	0.2	4.1
	2.3	**2.3**	**1.1**	**1.7**	**7.4**	2.8	0.8	3.5	2.3	9.4

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.

National insurance costs are provided in respect of future share options exercises.

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

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.

23. Capital and reserves

Share capital

	Ordinary shares	
	2019 Number	2018 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 £39.9 million (2018: £33.0 million) 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 406,357 shares (2018: 560,866 shares) with a market value at 28 December 2019 of £9.3 million (2018: £7.1 million) which have not vested unconditionally in employees. During the year the Trust purchased 547,713 (2018: 889,189) shares for an aggregate consideration of £11.8 million (2018: £9.9 million) and sold 702,222 (2018: 832,538) shares for an aggregate consideration of £4.9 million (2018: £5.2 million).

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:

	2019 Per share pence	2018 Per share pence
2017 final dividend	–	22.0p
2018 interim dividend	–	10.7p
2018 final dividend	**25.0p**	–
2019 interim dividend	**11.9p**	–
2019 special dividend	**35.0p**	–
	71.9p	32.7p

The proposed final dividend in respect of 2019 amounts to 33.0 pence per share (£33.2 million). This proposed dividend is subject to approval at the Annual General Meeting and has not been included as a liability in these accounts.

	2019 £m	2018 £m
2017 final dividend	–	22.2
2018 interim dividend	–	10.8
2018 final dividend	**25.3**	–
2019 interim dividend	**12.0**	–
2019 special dividend	**35.3**	–
	72.6	33.0

24. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2019 £m Property	**2019 £m Equipment**	**2019 £m Total**	2018 £m Property	2018 £m Equipment	2018 £m Total
Less than one year	**–**	**–**	**–**	44.0	1.9	45.9
Between one and five years	**–**	**–**	**–**	97.2	2.0	99.2
More than five years	**–**	**–**	**–**	19.6	–	19.6
	–	**–**	**–**	160.8	3.9	164.7

The Group previously categorised the majority of its shop leases as 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.

From 30 December 2018 the Group has recognised right-of-use assets and lease liabilities for these leases, except for short-term and low-value leases. See Note 11 for further information.

25. Capital commitments

During the 52 weeks ended 28 December 2019, the Group entered into contracts to purchase property, plant and equipment and intangible assets for £35.7 million (2018: £11.6 million), which are expected to be settled in the following financial year.

26. Related parties

Identity of related parties

The Group has a related-party relationship with its subsidiaries (see Note 13), 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 (2018: none).

Trading transactions with subsidiaries – Parent Company

	Amounts owed to related parties		**Amounts owed by related parties**	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Dormant subsidiaries	**7.8**	7.8	**–**	–

The Greggs Foundation is also a related party and during the year the Company made a donation to the Greggs Foundation of £1.3 million (2018: £1.0 million), as well as passing on £0.4 million (2018: £0.7 million) raised from the sale of carrier bags and £0.3 million (2018: £0.3 million) 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 56 to 83. Summary information on remuneration of key management personnel is included in Note 5.

Ten-year history

	2010[1]	2011	2012 (as restated)[2]	2013	2014 (as restated)[1,3]	2015[1]	2016	2017	2018	**2019[5]**
Turnover (£m)	662.3	701.1	734.5	762.4	806.1	835.7	894.2	960.0	1,029.3	**1,167.9**
Total sales growth (%)	0.6%	5.8%	4.8%	3.8%	5.7%	3.7%	7.0%	7.4%	7.2%	**13.5%**
Company-managed shop like-for-like sales growth (%)	0.2%	1.4%	(2.7%)	(0.8%)	4.5%	4.7%	4.2%	3.7%	2.9%	**9.2%**
Profit before tax ('PBT') excluding exceptional items (£m)	52.5	53.1	50.9	41.3	58.3	73.1	80.3	81.7	89.8	**114.2**
PBT margin excluding exceptional items (%)	7.9%	7.6%	6.9%	5.4%	7.2%	8.7%	9.0%	8.5%	8.7%	**9.8%**
Pre-tax exceptional (charge)/ credit (£m)	–	7.4	1.4	(8.1)	(8.5)	–	(5.2)	(9.9)	(7.2)	**(5.9)**
Profit on ordinary activities including exceptional items and before tax (£m)	52.5	60.5	52.4	33.2	49.7	73.0	75.1	71.9	82.6	**108.3**
Diluted earnings per share excluding exceptional items (pence)	37.3	38.8	38.3	30.6	43.4	55.8	60.8	63.5	70.3	**89.7**
Dividend per share (pence)	18.2	19.3	19.5	19.5	22.0	48.6[4]	31.0	32.3	35.7	**79.9[6]**
Total shareholder return (%)	11.1%	13.0%	(6.1%)	0.6%	69.7%	87.1%	(23.8%)	47.5%	(7.4%)	**87.5%**
Capital expenditure (£m)	45.6	59.1	46.9	47.6	48.9	71.7	80.4	70.4	73.0	**86.0**
Return on capital employed (excluding exceptional items) (%)	25.9%	24.4%	21.3%	16.4%	22.4%	26.8%	28.1%	26.9%	27.4%	**33.6%[7]**
Number of shops in operation at year end	1,487	1,571	1,671	1,671	1,650	1,698	1,764	1,854	1,953	**2,050**

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 20.0p
5 IFRS 16 Leases was implemented at the start of the financial year using the modified retrospective approach. Prior year comparatives have not been restated.
6 Includes a special dividend of 35.0p
7 National return on capital employed – see page 133

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:

	2019 £m	2018 £m
Current year LFL sales	**987.8**	876.3
Prior year LFL sales	**904.7**	851.7
Growth	**83.1**	24.6
LFL sales growth percentage	**9.2%**	2.9%

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

	2019 Underlying IFRS 16 £m	2019 Including exceptional items IFRS 16 £m	2018 Underlying IAS 17 £m	2018 Including exceptional items IAS 17 £m
Profit before tax	**114.2**	**108.3**	89.8	82.6
Capital employed:				
Opening	**559.3**	**559.3**	313.3	313.3
Closing	**580.1**	**580.1**	343.0	343.0
Average	**569.7**	**569.7**	328.2	328.2
Return on capital employed	**20.0%**	**19.0%**	27.4%	25.2%

Notional return on capital employed – calculated by dividing profit before tax by the average total assets less current liabilities for the year and taking into account the pre-agreed adjustments in respect of IFRS 16 used by the Remuneration Committee for determination of incentive outcomes (see page 78).

Underlying	2019 As reported £m	IFRS 16 adjustments £m	2019 Notional £m
Underlying profit before tax (see page 94)	**114.2**	**4.2**	**118.4**
Capital employed			
Opening	**559.3**	**(216.3)**	**343.0**
Closing	**580.1**	**(219.2)***	**360.9**
Average	**569.7**		**352.0**
Return on capital employed	**20.0%**		**33.6%**

Including exceptional items	2019 As reported £m	IFRS 16 adjustments £m	2019 Notional £m
Profit before tax (see page 94)	**108.3**	**4.2**	**112.5**
Capital employed			
Opening	**559.3**	**(216.3)**	**343.0**
Closing	**580.1**	**(219.2)***	**360.9**
Average	**569.7**		**352.0**
Return on capital employed	**19.0%**		**32.0%**

*This adjustment is based on forecasts made on transition and therefore cannot be reconciled to the accounts.

Net cash inflow from operating activities after lease payments – calculated by deducting the repayment of principal of lease liabilities from net cash flow from operating activities

	2019 IFRS 16 £m	2018 IAS 17 £m
Net cash inflow from operating activities	**219.1**	136.1
Repayment of principal of lease liabilities	**(49.6)**	–
Net cash inflow from operating activities after lease payments	**169.5**	136.1

Notes

Financial calendar

Announcement of results

Half year	Late July
Full year	Early March
Annual report posted to shareholders	Early April
Annual General Meeting	13 May 2020

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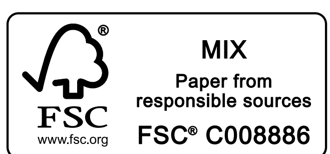

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