GREGGS PLC Annual Report & Accounts 2020

2020

BRINGING OUT THE BEST IN US

In a year like no other, the Covid-19 crisis has, in many ways demonstrated the strength of Greggs.

It has shown the resilience of our business model, but most of all the strength of our people who have worked hard throughout to maintain an essential service providing takeaway food to customers unable to work from home, many of whom were themselves key workers. I would like to take this opportunity to thank all of our people, who can be proud of the part we played in our nation's time of need.

Greggs is well placed to participate in the recovery from the pandemic and has demonstrated its resilience and capability to operate under such challenging conditions. With good liquidity and growing digital capabilities Greggs is an attractive proposition that can grow further in new locations, channels and dayparts. These opportunities will benefit all of our stakeholders in the years to come.

Roger Whiteside OBE, Chief Executive
16 March 2021

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2020 HIGHLIGHTS

Covid-secure operating model established.

Shop and supply chain operations adapted to safeguard team members and customers while operating during Covid-19.

READ MORE ON PAGES 13-14

Multi-channel development strategy accelerated.

Delivery and wholesale channels providing alternative routes to access Greggs products, with delivery contributing an increasing proportion of total sales. Click + Collect rolled out across entire estate and delivery made available in more than 600 shops.

READ MORE ON PAGES 24-27

The Greggs Pledge launched.

Ten sustainability commitments to continue to develop the business in a responsible manner over the next five years and beyond.

READ MORE ON PAGES 34-40

Key financial highlights

Total sales

£811.3m

-30.5%
2019: £1,167.9m

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

-36.2%

2019: 9.2%

Pre-tax loss

£13.7m

2019: profit before tax £108.3m

Diluted loss per share

12.9p

2019: earnings per share 85.0p

Return on capital employed

-2.4%

2019: 19.0%

Detailed calculations of Alternative Performance Measures, not otherwise shown in the income statements and related notes, are shown on page 168.

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AT A GLANCE

With ownership of our supply chain, multiple service channels for our customers, and over 2,000 shops nationwide, we are in a unique position to make great tasting, freshly prepared food accessible to everyone. Staying open to serve under Covid-secure conditions showed the important role we play in providing food-on-the-go to all types of people, as they go about their daily lives as best they can, in difficult circumstances.

Our purpose

To make great tasting, freshly prepared food accessible to everyone.

Our vision

To be the customers' favourite for food-on-the-go.

OUR STRATEGIC PILLARS

Great tasting, freshly prepared food

You cannot beat freshly baked, freshly prepared food. With our great flavours, responsibly-sourced ingredients, consistent quality and outstanding value – our food-to-go leads the way.

READ MORE ON PAGES 24-25 →

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. Through Greggs Rewards, we are able to build long-lasting relationships with our customers and reward their loyalty.

READ MORE ON PAGES 26-28 →

Competitive supply chain

By owning our supply chain, we can make great tasting, freshly prepared food accessible to everyone.

READ MORE ON PAGES 29-30 →

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.

READ MORE ON PAGE 31 →

Our sustainability commitments

It's our duty as a responsible business to stand for more than just profit. Launched in February 2021, our first, full sustainability report, 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. We will support 1,000 school Breakfast Clubs providing some 70,000 meals each school day.
2. We will create 25 per cent less food waste than in 2018 and will continue to work towards 100 per cent of surplus food going to those most in need.
3. We will have 50 Greggs Outlet shops providing affordable food in areas of social deprivation, with a share of profits given to local community organisations.
4. 30 per cent of the items on our shelves will be healthier choices and we will attract customers through education and promotions.
5. We will be on our way to achieving carbon neutrality by using 100 per cent renewable energy across all of our operations.
6. 25 per cent of our shops will feature elements from our Eco-Shop, 'shop of the future' design.
7. We will use 25 per cent less packaging, by weight, than in 2019, and any remaining packaging will be made from material that is widely recycled.
8. Our workforce will reflect the communities we serve.
9. We will have a robust Responsible Sourcing Strategy in place and will report annually on progress towards our targets.
10. We will secure and maintain Tier 1 in the BBFAW Animal Welfare standard.

MORE ABOUT THE GREGGS PLEDGE ON PAGES 34-40.
TO VIEW FULL REPORT, HTTPS://CORPORATE.GREGGS.CO.UK/RESPONSIBILITY/THE-GREGGS-PLEDGE.

Our culture and values

Our people are what makes our business successful. We aim to provide them with a great place to work, where they feel valued. Our values commit us to being friendly, inclusive, honest, respectful, hard-working and appreciative.

It's our culture and values that set us apart. And while summarising our unique culture 'Being Greggs' is no easy task, simply put – we love what we do, we have fun and we welcome everyone. We're hard-working, but above all else we're family; and it doesn't matter who you are, where you're from or what your favourite bake is… once you walk into one of our shops, you're family too.

Continued on the next page

Our stakeholders

Maintaining good relationships with our essential stakeholders is key to what we do. Our stakeholder family includes customers, colleagues, investors, suppliers, and of course, the communities that we serve.

CUSTOMERS

COLLEAGUES

SUPPLIERS

SHAREHOLDERS

LENDERS

COMMUNITIES

How we measure our performance

Constant monitoring of how we meet our objectives and challenges is vital to success. Naturally, we look at financial performance through our principal KPIs, but doing business in the right way is measured too, with wide-ranging balanced scorecards examining every aspect of what we do.

READ MORE ON PAGES 18-23

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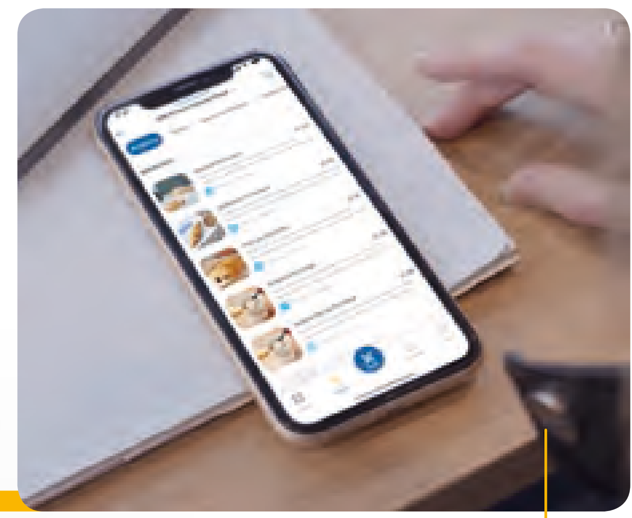
2020's challenges brought out the best in our people, our teams and our business.



Full steam ahead with Next Generation Greggs *January*
Following successful trials in 2019, we launched our multi-channel, digital transformation programme in January: 'Next Generation Greggs' – not knowing that it was about to become even more important.

Our partnership with Just Eat *July*
We rolled out our partnership with Just Eat at breakneck speed to over 600 shops nationwide, meaning more and more customers can enjoy Greggs from the comfort of their own homes.

From shop openings and award-winning product launches, the roll out of delivery services and Click + Collect to record-breaking sales with Iceland, there is a lot to be proud of.

Continued on the next page

Vegan Victory! *October*
Hot on the heels of the success of our award-winning Vegan Sausage Roll, hailed PETA's 'Product Launch of the Year' in 2019, we launched our Vegan Steak Bake in 2020. It's proving a welcome addition to our growing vegan range, so much so that PETA declared it the 'Best Vegan Pasty' 2020.

New Shops *September*
We reignited our shop opening programme later in the year; focusing mainly on areas where we can provide easy access for customers in cars, including new concessions in Asda and Tesco, in addition to retail parks and petrol forecourts with our franchise partners.

Click + Collect *October*
2020 saw, within a matter of weeks, the rapid development and launch of our Click + Collect service, providing a safe, convenient and socially-distanced way to shop. Successful, early trials meant we were able to roll the service out to all company-managed shops in the Autumn.

Bake your own *December*
Our long-standing partnership with Iceland saw record-breaking sales in 2020 as many more customers baked their Greggs favourites at home.

Continued on the next page

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.

Logistics

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

Customer channels

We now have over 2,000 modern shops across the UK, including 328 with franchise partners, located where our customers want us to be. Our delivery and wholesale partnerships mean more and more customers can enjoy Greggs from the comfort of their own homes.

People

We have more than 21,500 amazing people, working together to provide our customers with the best experience, day in, day out.

Customer relationships

Through our award-winning loyalty scheme, Greggs Rewards, we are building long-term connections with our customers.

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

To make good, freshly prepared food accessible to everyone.

Quality

We want our products to be the best they can be.

Convenience

We want to be able to serve customers wherever, whenever and however they choose.

Value

We offer great value in an extremely competitive market place.

Service

We provide customers with fast and friendly service, fixing issues without a fuss and rewarding them for their loyalty.

The Greggs Pledge: Dedicated to Doing Good

Stronger, Healthier Communities

We pledge to play our part in improving the nation's diet by helping to tackle obesity, providing free breakfasts to school children, and giving surplus food to those who need it most.

Safer Planet

We pledge to become a carbon neutral, zero waste business.

Better Business

We pledge to increase the diversity of our workforce, and to use our purchasing power responsibly, with the aim of making things better in our supply chain.

Continued on the next page

Greggs has proved itself agile and adaptable in times of uncertainty.

Greggs has risen to the most formidable of challenges in 2020 and, while it has faced setbacks, is recovering well. We have worked hard to do the right thing by our people, communities and other stakeholders, and have been given great support in return.

Continued on the next page

Strategic plans have, if anything, accelerated and as lockdowns ease we are now looking towards growth again with an emerging multi-channel offering. Our colleagues have shown remarkable resilience and tenacity whilst ensuring we have provided the best possible customer service in very difficult conditions. We move into 2021 with optimism and ambition.

Overview

2020 was not the year that any of us planned for, and has required the Board and Executive team to work together to protect the business and the interests of its many stakeholders. Greggs started the year performing very strongly but temporarily closed the shop estate in March 2020 as a consequence of the Covid-19 outbreak. Greggs sought debt financing to support its short-term liquidity requirements, which was forthcoming from both government and commercial sources due to the financial strength of the business and its significant contribution to the UK economy. Loans from the Bank of England under the CCFF facility were fully repaid by the end of the year and the business finished the year with net cash in the bank.

The Company's trading performance since reopening its shops in the middle of 2020 has been strong in the context of prevailing mobility restrictions. Greggs has a broad base of shops in locations that have remained accessible to customers who rely on us when they need to be away from the home. For those at home we have accelerated our digital offering, with delivery now making a significant contribution to company-managed shop sales.

With lower-than-normal sales levels Greggs made a loss in 2020; the first time in its history as a listed business. Government support has been essential to mitigate the impact of Covid-19 and protect as many jobs as possible through this period. Shareholders have made a significant contribution, forgoing dividends and accepting reduced investment in the business, and there has been terrific support from our employees. The Board has been very focused on balancing the needs of all the Company's stakeholders as it has made decisions this year and I am proud of the manner in which it has done so. We have also balanced the short-term tactical needs of the business with protecting our long-term ambition and adapting our strategy to market changes.

Our people and values

This crisis has, inevitably, put great pressure on the whole Greggs team. The collegiate nature of our people has come to the fore, standing by each other and the communities that we serve. There have been many sacrifices, but we have stayed true to the values that underpin the great culture that exists within Greggs.

From the initial closure period until the half year we maintained full pay for our furloughed colleagues. I am grateful to the management team, who went without their pay award, and to the Executive and my Board colleagues who volunteered reductions in their salaries and fees to protect the business in the most difficult period of 2020.

The communities that we rely on have needed additional support in 2020 and the Greggs Foundation has played a leading role, increasing its investment in the provision of hardship relief grants and offering extra help to hard-hit community organisations. The Trustees of the Greggs Foundation have drawn on its reserves to do so, and this has leveraged additional funding from others who recognise the team's ability to deliver help to the heart of communities.

Our colleagues have proved, once again, what a wonderful team they are. However it has been sad to say goodbye to some as we made reductions in the number employed to reflect the reality of the trading environment and to ensure that Greggs maintains its competitive edge. To them, and to those who continue to provide great service to our customers every day, I would like to say "thank you" on behalf of the Company and its shareholders.

The Board

We have been fortunate to have a period of stability on the Board at a time when experience of the business was of great importance to our stewardship role. The Board has provided its support to the Executive, who had to make many difficult decisions, often in areas that have been new to most of us.

Like so many we have adapted to communicating virtually. This has worked well, making it easier to be in regular contact with management. The normal processes by which we listen to the views of employees have been challenged by the inability to meet in person, but we have found virtual forums to be a good alternative under the circumstances.

Risk management has clearly been a critical area for the Board in 2020. In addition to the Covid-related risks the Board scrutinised the Company's developments in digital channels and reviewed its preparedness for the possibility of a 'no deal' exit from the European Union. Further details of the Board's work are included in the governance and committee sections of the annual report.

Greggs supports diversity and inclusion initiatives across the business and on the Board and we expect to see tangible progress during 2021 as we develop our plans to grow as a diverse company that is representative of the communities we serve.

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We continue to plan for succession for both Executive and Non-Executive directors. Normally, under the UK Corporate Governance Code, I would have been expected to step down in 2020 but the Board has asked me to remain in place to provide continuity of leadership during a period when we are likely to address CEO succession as Roger Whiteside (62) approaches retirement age. We are grateful to Roger for his willingness to be flexible regarding his retirement date to ensure the best possible succession and transition process.

Dividend

The planned final dividend for 2019 was a casualty of the need to preserve cash in the spring of 2020 and it has not been possible or appropriate to pay any further dividends since. In order to recommence a dividend distribution, the Company will need to return to a level of profitability and cash generation sufficient to support its investment programme whilst maintaining appropriate liquidity.

Looking ahead

Greggs is a business which has proved itself agile and adaptable to operating in times of great uncertainty whilst continuing to make strategic progress. Digital channels are increasingly contributing to the recovery of sales levels and opportunities for estate growth appear to be as good, if not better, than they were a year ago.

A year ago we anticipated the publication of 'The Greggs Pledge', our vision of how we will continue to develop the business in a responsible manner. This was delayed by the need to focus on the immediate challenges of 2020 but I am delighted that it has now been launched. It describes our targets for responsible business over the longer term and will be an important part of Greggs' competitive positioning and contribution to society in the years ahead. Our Chief Executive Roger Whiteside outlines the key elements of this in his report.

Greggs is a great business and we are confident for the future.

Ian Durant
Chairman
16 March 2021

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Greggs has demonstrated its resilience and capability to operate under such challenging conditions.

In a year like no other I believe that the Covid-19 crisis has in many ways demonstrated the strength of Greggs.

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It has shown the resilience of our business model, but most of all the strength of our people who have worked hard throughout to maintain an essential service providing takeaway food to customers unable to work from home, many of whom were themselves key workers. I would like to take this opportunity to thank all of our people, who can be proud of the part we played in our nation's time of need.

Greggs began the new year with exceptional momentum following a record-breaking 2019. Strong growth in customer numbers continued into January and February, marred only by our first ever flood at our Welsh bakery and logistics site. This gave us our first taste of crisis management in the year – little did we know then of what was to come.

Safety first

When the Covid-19 crisis began in March we quickly prioritised safety so that we could continue providing an essential service with takeaway food. When the first national lock down was announced the Government's "Stay at Home" safety message proved so strong that we decided that, in common with others in our sector, we should temporarily close our shops, a move that had support from our colleagues and customers. That's when we saw our colleagues across the country pull out all the stops to close down our shops and supply chain safely, and to redistribute our unused food to those who would benefit from it the most, whilst also making sure that we thanked our NHS heroes with free hot drinks and treats. We made many heroes of our own as colleagues worked tirelessly to move the food to local charities from our shops and distribution centres.

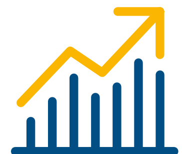
Securing our financial position

Having made the decision to close we moved quickly to secure our financial position. We immediately accessed the support that the Government made available in the form of the Coronavirus Job Retention Scheme (CJRS) and topped this up to full pay for our colleagues whilst our shops were closed. Cash preservation was critical and we acted quickly to stop dividend payments to shareholders, pause new shop openings and capital investment projects, begin negotiating rent reductions, and gave up the management pay award alongside Directors taking voluntary salary reductions. Meanwhile we successfully accessed the Bank of England's CCFF loan scheme as a temporary source of liquidity whilst commercial borrowing facilities were established.

STRATEGIC HIGHLIGHTS

- **Multi-channel development strategy accelerated:** delivery and wholesale channels providing alternative routes to access Greggs products. Click + Collect rolled out across the entire estate and delivery made available in over 600 shops.
- **Shop opening pipeline reactivated:** demonstrating confidence in long-term growth opportunity.
- **Covid-secure operating model established:** shop and supply chain operations adapted to safeguard team members and customers while operating during Covid-19.
- **Resilience through breadth of shop estate and customer base:** variety and reach of shop estate, in locations accessible to customers who need to be away from the home.
- **Investment in supply chain and systems:** benefits of upgrade programmes to modernise the core business processes and IT systems evident as programmes near completion.
- **The Greggs Pledge launched:** ten sustainability commitments to continue to develop the business in a responsible manner over the next five years and beyond.

READ MORE ON PAGES 24-40



Delivery sales are

9.6 per cent

of company managed shop sales in the ten weeks to 13 March 2021.

3,000

Our target number of shops in the years ahead.

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"We launched our Next Generation Greggs programme in January 2020 and it is now clear that the ambition in that strategic plan to increase access to Greggs has become more relevant than ever."

Restarting our operations and reopening our shops

Closing down our operations and shops took a matter of days, but starting everything back up again took very careful planning by a small, dedicated team who continued working throughout the crisis. A massive exercise to equip our operations to open under Covid-secure conditions saw us begin reopening in June, initially under lockdown conditions, as the country prepared to relax restrictions over the summer. As we restarted our internal distribution service to shops we also took the significant step of moving to a single daily delivery, minimising the number of shops receiving a delivery during opening hours.

Having demonstrated that we could continue serving customers safely in lockdown conditions we were well-positioned to remain open when new restrictions returned in the winter. Our sales during the second half correlated with the differing tiers of restriction around the UK and demonstrated that there was demand for our takeaway food and drinks in all conditions from customers unable to work from home.

While we were able to recommence trading across the shop estate in July, customer footfall has been significantly reduced by the restrictions and Government support has been vital both in supporting jobs and mitigating business losses. Once we had established the level of demand to be expected under social distancing we took action to reduce the size of our workforce, thereby reducing use of the CJRS only to situations where job impacts were judged to be temporary. Meanwhile we arranged a commercial lending facility to allow us to repay the Bank of England CCFF loan.

Financial results

The Covid-19 crisis of 2020 has resulted in Greggs reporting its first ever loss since flotation of £13.7 million before tax (2019: profit before tax of £108.3 million).

Total sales fell 30.5 per cent to £811.3 million and like-for-like sales in company-managed shops declined by 36.2 per cent.

The actions taken to secure our financial position resulted in a £36.8 million net cash position at the end of 2020 (2019: £91.3 million), despite seeing an overall net cash outflow of £54.5 million in the year. The addition of a new borrowing facility has left us with a robust balance sheet able to withstand further shocks.

Accelerating our strategic plan

Whilst we cannot escape the short-term financial impact of Covid-19 on our business we have been determined to keep our strategic plan on track. Many of the changes we have been observing in customer behaviour during this crisis are trends that had previously been identified and as a result we saw the opportunity to accelerate our strategic development to emerge stronger in the years ahead.

We launched our Next Generation Greggs programme in January 2020 and it is now clear that the ambition in that strategic plan to increase access to Greggs has become more relevant than ever.

Best customer experience

Digital technology had been identified in our plans as the key opportunity for Greggs to increase market share by increasing customer loyalty, menu choice and multi-channel reach.

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Successful trials in 2019 allowed us to move quickly under Covid-19 to roll out new services nationwide including a new Greggs Rewards offer, Greggs Click + Collect, and delivery with our partners Just Eat. In a matter of months delivery was made available in over 600 shops and in the fourth quarter accounted for 5.5 per cent of company-managed shop sales. Delivery is extending our reach and taking market share and we are planning further roll out in the year ahead.

Similarly, successful trials of our improved Greggs Rewards loyalty scheme in 2019 meant that we were able to accelerate our plans and launch it nationwide in October. Our development team also applied the learnings from earlier trials to launch our new Click + Collect service making it available to all shops by September. These two new services have been brought together in our new App which is now being piloted ahead of launch in the second quarter of 2021.

Marketing continues to play a key role in driving brand awareness amongst target customer groups and we have invested in a stronger team to compete in digital channels and develop our customer relationship management capabilities as new systems are deployed during 2021.

Our shops

While new digital channels present opportunities to compete for market share our shop network remains key to our growth ambitions providing both convenient access to passing customers as well as nationwide reach for delivery and collection services.

Existing trends towards increased flexible home working and online shopping have seen a material acceleration during this crisis and longer term we expect to see a further shift away from office-dependent catchments and weaker shopping locations. Our experience during this crisis has highlighted that the diversity of our estate means we are not overly dependent on any one location type and downturns in some areas are balanced by improvements in others.

Shops accessed by car have been the strongest performers during the Covid-19 crisis and these location types already formed most of our new shop pipeline. This gave us the confidence to restart our new shop opening programme in the second half and we are targeting a rapid return to previously planned growth levels of circa 100 net new shops for the year ahead.

In addition, new opportunities now exist in previously under-represented locations such as central London and mass transport hubs where availability and rental levels will now make those locations more accessible. Similarly, relocation opportunities to expand into bigger, better shop space are expected in existing locations that will support our continued drive to improve the quality of the estate and develop new opportunities with additional seating. With a strong pipeline and support from multi-channel development we have raised our target for the UK estate to 3,000 shops.

In 2020 we opened 84 new shops (including 35 franchised units) and closed 56, growing the estate to 2,078 shops as at 2 January 2021, 328 of which are franchised shops operated by our partners. The shop estate is in good condition and refurbishment costs will remain low in the short term while we establish space and equipment requirements for new services in our full range of formats.

Great tasting freshly prepared food

Having started 2020 with the launch of a new award-winning vegan steak bake alongside our first vegan doughnut our product development plans came to an abrupt stop as shops were closed and our teams were put on furlough.

Our ambition to be the nation's favourite brand for food-on-the-go requires us to offer a varied menu suited to all times of the day – breakfast, lunch and dinner. Our strategy remains to add to our existing credentials for freshly prepared, great value, great tasting bakery food by building our reputation for product categories with growing demand in the market. The addition of new digital channels strengthens our ability to test new product areas and avoid some of the maturity costs in gaining customer support for products not already associated with our brand.

Work restarted in the final quarter of last year to plan for new product introductions once customer restrictions are lifted and demand conditions improve. Strategic areas of opportunity include our coffee menu which will be extended this year alongside the rapid roll out of our fully-tested new coffee machine improving speed, quality and range options.

Hot food also remains a key area of focus both for self-selection in our shop fronts and increasingly from behind the counter for delivery. The combination of these two opens the opportunity for development of our offer to compete in later day trading which we tested in trial shops last year and will see further extension.

The growing trend for greater dietary choice shows no signs of slowing. With two successful new vegan-friendly lines introduced last year we will once again be adding to our existing range, offering vegan-friendly versions of our best-selling lines.

Covid-19 restrictions saw increased demand in supermarkets including our long-term partners Iceland. Sales of our Greggs products for home baking leapt to record levels, introducing new customers to our brand for home consumption and providing a platform for further development including the introduction of vegan products to the range.

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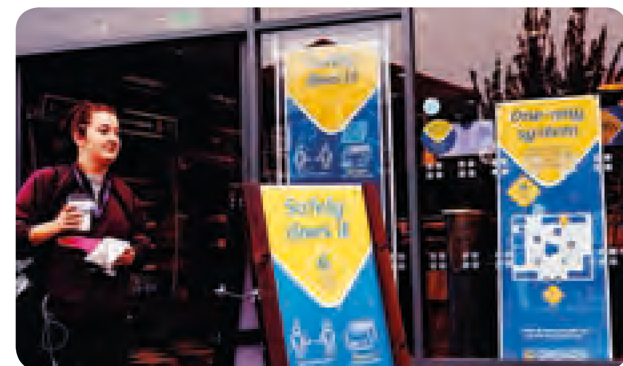
Interest in healthier food choices is driving our sector-leading standards in the provision of information to customers to enable them to make informed choices. We have now completed successful trials in preparation for the requirement to move to full labelling of sandwiches made in shops, which is due later this year.

Product improvements will see us make further progress with salt, fat, sugar and calorie targets alongside continued progress in our animal welfare standards. Since 2016 we have removed 20 per cent of the sugar from our pastries, yoghurts, biscuits and cakes and, over the coming four years, will reduce the calories and salt in a third of our products to make sure that they meet or exceed the recommendations of Public Health England. The options for customers will be further increased when we trial custom ordering for sandwiches through digital channels later in the year.

Competitive supply chain

Even before Covid-19 arrived our supply chain teams began 2020 in crisis mode having to cope, in February, with our first ever flood leading to the closure of our bakery and logistics site in Wales. We could not have expected then that we would remain in crisis for the rest of the year and into 2021.



Our teams have been outstanding in managing throughout this period, coping with constantly changing shop closures alongside managing the infection risk seen in food manufacturing sites around the UK.

Our ability to manage the impact of temporary site closures benefited greatly from our major investment programme over recent years in which we both centralised and automated manufacturing, allowing us to build and distribute from stock across the country. In response to the requirement to minimise social contact we also radically changed our distribution operation resulting in improved delivery efficiency which will now benefit the business longer term. As a consequence, we have created additional distribution capacity and are now able to postpone investment at our Birmingham site, which had been scheduled to commence in 2021, for a number of years.

In addition to the tireless work involved in maintaining supplies, our teams continued to make progress on our key strategic projects which will be completed in the year ahead. These include the roll out of new SAP systems to all remaining sites and commissioning of our new automated frozen distribution facility at our Balliol Park distribution centre in Newcastle.

New shop openings, alongside an anticipated return to strong sales growth, will require investment in additional manufacturing capacity beginning with our savoury manufacturing plant at Balliol Park where a £9 million programme of automation is already underway and is planned for completion later this year. Planning will also commence to address our capacity needs looking forward to our next target of 3,000 shops in the years ahead.

> "Our teams have been outstanding in managing throughout this period"
>
> **Roger Whiteside OBE, Chief Executive**

First class support teams

As with our supply chain, our investment in recent years to modernise our core business processes and IT systems greatly assisted us in supporting the business as we adapted to working from home, often with skeleton teams when numbers on furlough were at their peak. Our investment in modern office working tools alongside business intelligence reporting has made for efficient remote working. Office working remains at a minimum and we are planning for increased flexible working to remain for the long term once restrictions are lifted.

Accelerated investment in our digital capabilities has been a key focus during 2020 and our IT development teams have been fully engaged in our Next Generation Greggs programme which saw rapid roll out of digital customer channels and a new Greggs Rewards loyalty scheme in the second half of the year. Progress made last year will see us launch a new Greggs App in 2021 followed by new systems to help our shop teams satisfy demand in these new channels, improve the customer experience and offer new service features.

Alongside this work we were also able to maintain progress on SAP deployment in our supply chain at sites in Enfield and Manchester despite Covid-19 constraints and this leaves us well positioned to complete the roll out of this programme in the year ahead.

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The Greggs Pledge

Greggs has a proud reputation of giving back. Since John Gregg founded the business in 1939, we have always tried to do the right thing by our people, customers, suppliers and communities. These family values are at the heart of our culture.

Today, Greggs is a company with a national presence, supporting hundreds of suppliers, employing thousands of people, and serving millions of consumers. The way we operate affects a great many people so being a good business is more important than ever.

Following an extensive engagement exercise in 2019 we set out last year to launch the Greggs Pledge in the form of our first full sustainability report. Unfortunately, our launch plan had to be put on hold but our commitment remains undiminished, and the Greggs Pledge was launched in February 2021. The global pandemic has reminded us all of the importance of community, the power of kindness, and the value of collaboration to tackle our biggest problems. Now, we must work together to rebuild our economies and address the complex social and environmental problems that we were already grappling with.

The Greggs Pledge commits us to ten things that we're doing to help make the world a better place by 2025 – and beyond. We arrived at these pledges by talking with our own people and our external stakeholders, and by considering the issues that are most relevant to our business. Our pledges align with the ambitions of the UN Sustainable Development Goals (SDGs).

We have chosen to concentrate our efforts on the challenges where we think we can make the most difference:

We want to help build stronger, healthier communities.

Even before the pandemic ravaged our economy, far too many people were struggling with poverty and hunger in this country. The Greggs Breakfast Clubs feed around 39,000 children every school day and we will continue to grow the scheme. We are also doing what we can to ensure that perfectly good food doesn't get wasted, but instead gets to people who need it. We recognise that poor nutrition is another issue where we have a role to play and are doing more to guide our customers towards healthier choices.

We want to make our planet safer.

The impacts of unchecked climate change would be catastrophic. We want to make Greggs a carbon neutral, zero waste business. We actively support the BRC's Climate Action Roadmap which aims to make the UK's retail industry net zero, well ahead of the Government's 2050 target. In addition, we are reducing our use of packaging, looking at how we can apply 'circular economy' thinking to our business and working with our suppliers to make efficient use of resources.

We want to be a better business.

The corporate world can be a powerful force for good when it is guided by a moral compass. As well as continuing to support our communities by paying our taxes and providing thousands of fairly-paid jobs, we are redoubling our efforts to make Greggs a great place to work. We are also setting high standards for what we purchase, encouraging our suppliers to raise their game too.

We will give back to the communities that support us and take less from the environment that we all rely on. I want Greggs to play a meaningful role not just in getting Britain back on its feet but in getting us to a better place.

Our separate sustainability report provides a full description of our activities alongside measurable targets we have set ourselves across all these areas. https://corporate.greggs.co.uk/the-greggs-pledge

Current trading and outlook

Having made good progress through the second half of 2020 we have made a better-than-expected start to 2021 given the extent of lockdown conditions and the particular challenges in Scotland where our shops have been closed to walk-in customers. In the ten weeks to 13 March 2021, company-managed shop like-for-like sales were down 28.8 per cent year-on-year. Outside of Scotland, company-managed shop like-for-like sales in the rest of the UK estate were down 22.4 per cent year-on-year. We have seen an improving trend each week with delivery sales being particularly strong in these conditions, at 9.6 per cent of total company-managed shop sales in the year to date.

Greggs is well placed to participate in the recovery from the pandemic and has demonstrated its resilience and capability to operate under such challenging conditions. With good liquidity and growing digital capabilities Greggs is an attractive proposition that can grow further in new locations, channels and dayparts. These opportunities will benefit all of our stakeholders in the years to come.

Roger Whiteside OBE
Chief Executive
16 March 2021

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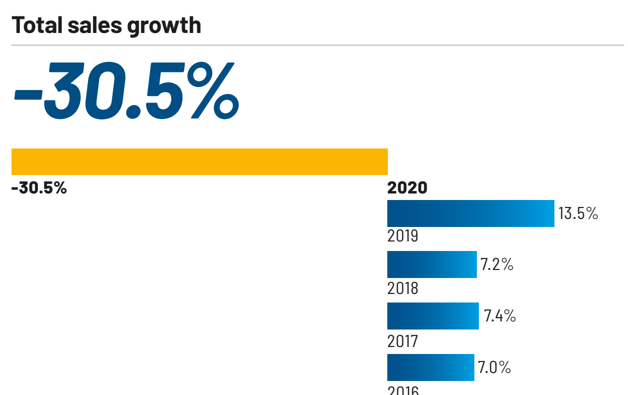
KEY PERFORMANCE INDICATORS

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 is detailed below. All of the underlying measures exclude the exceptional items detailed in Note 4. Commentary on these KPIs is contained within the Financial Review.

Total sales growth

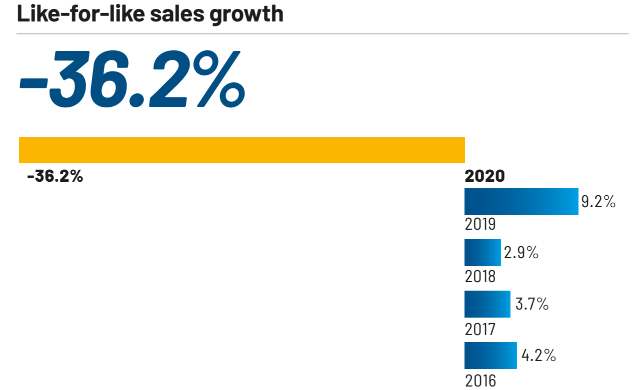
-30.5%



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

Like-for-like sales growth

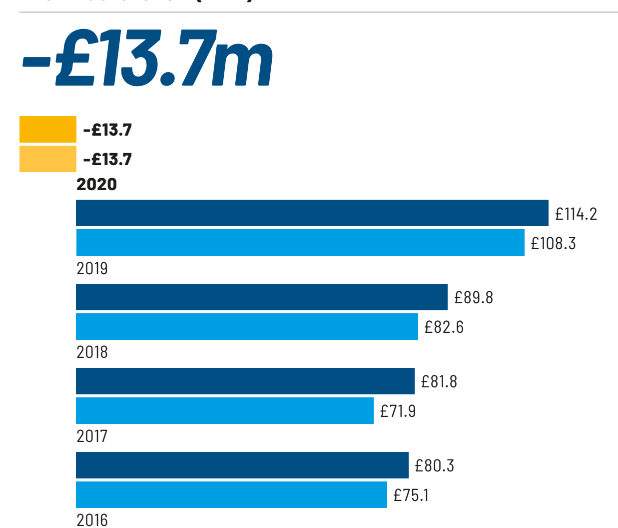
-36.2%



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 168.

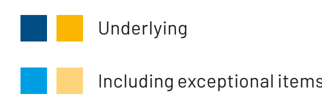
Profit before tax (PBT)

-£13.7m



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.



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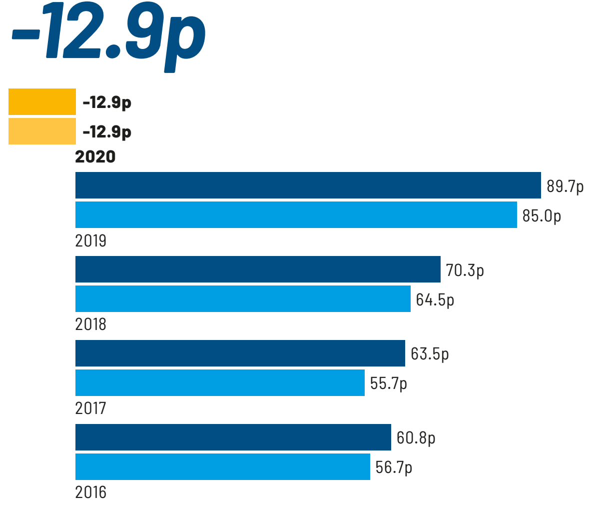
KEY PERFORMANCE INDICATORS CONTINUED

Diluted earnings per share (pence)

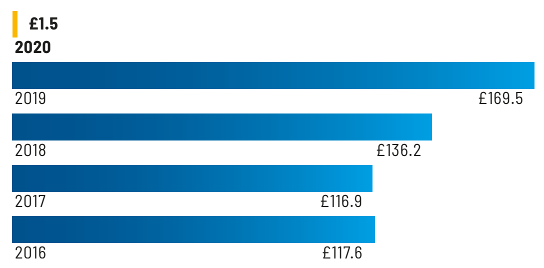
-12.9p



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.

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

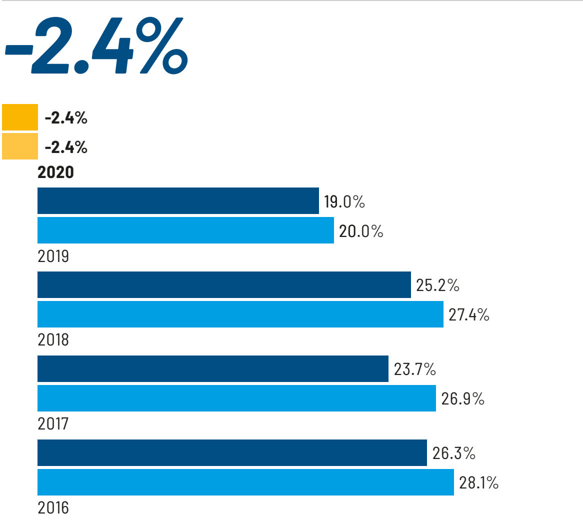
£1.5m



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 168.

Return on capital employed (ROCE)

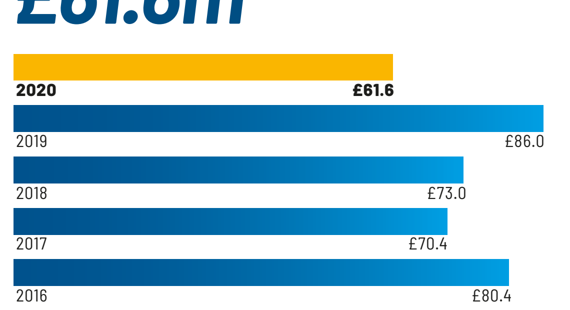
-2.4%



Calculated by dividing profit before tax by the average total assets less current liabilities for the year. The underlying measure excludes any exceptional items arising in the year. The calculation of these figures can be found on page 168.

Capital expenditure (£m)

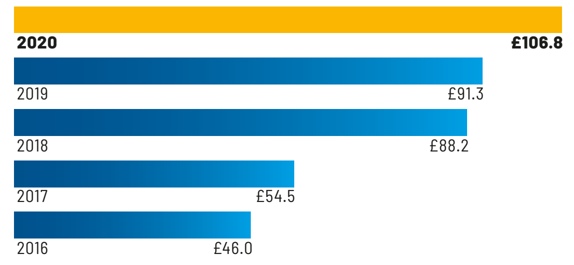
£61.6m



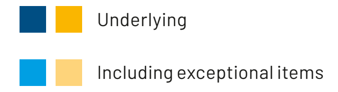
The total amount incurred in the year on investment in fixed assets.

Liquidity (£m)

£106.8m



Is calculated as cash and cash equivalents plus undrawn committed facilities, taking into account required minimum liquidity covenants.



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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 net zero impact. In 2020, we increased our gross location based intensity (tonnes per £m turnover) impact by 2.14%.*

As a result, our market-based carbon footprint for the 2020 financial year was 30,122 tonnes of carbon dioxide and equivalent gases (CO_2e), with an intensity of 37.35 tonnes of CO_2e per £million turnover, which accounts for our efforts in generating and purchasing low-carbon energy.

*This was driven largely by the impacts of the Covid-19 pandemic such as shop closures, reduced and phased operations required in manufacturing sites and reduced sales.

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 29 December 2019 to 2 January 2021.

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 operational 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 (2019) and emissions factors from UK Government's GHG Conversion Factors for Company Reporting (2020).

"In 2020, we set up a Net Zero Taskforce to challenge the climate impact of every area of our operations and drive action to reduce it."

Dual emissions reporting

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

Streamlined Energy and Carbon Reporting

In line with Streamlined Energy and Carbon Reporting (SECR) requirements, we have also reported on the underlying energy used to calculate Group GHG gas emissions.

Where original data was provided in litres of diesel, gas oil or petrol it has been converted to kWh. The reporting boundary has been determined by operational control, whereby all emissions within operational control have been included within scope, i.e. Scope 1 and 2.

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NON-FINANCIAL KEY PERFORMANCE INDICATORS CONTINUED

		Current reporting year 2020 (tonnes of CO_2e)	Comparison year 2019 (tonnes of CO_2e)	Base year (2015) (tonnes of CO_2e)
Location & Market based emissions				
Scope 1	Combustion of fuel & operation of facilities	**23,112**	33,155	31,509
Scope 1	Refrigerants	**4,541**	5,513	4,360
Scope 2 (Location based)	Electricity purchased for own use (inc PV Generated & green tariff)	**39,860**	57,294	89,375
Scope 2 (Market based)	Residual electricity	**2,469**	2,909	88,907
Gross emissions (Location based)	Total scope 1+2 CO_2e emissions	**67,513**	95,962	125,244
Gross emissions (Market based)	Total scope 1+2 CO_2e emissions to account for use of renewable energy	**30,122**	41,577	124,776
Intensity measure (Location based)	Tonnes of CO_2 per £m turnover	**83.71**	82.54	149.86
	Percentage change 2020 compared with 2019	**2.14%**		(44.14%)
Intensity measure (Market based)	Tonnes of CO_2e per £m turnover	**37.35**	35.76	149.29
	Intensity percentage change accounting for renewable energy 2020 compared with 2019	**4.45%**		(74.98%)

Location based method is provided for disclosure only

UK Underlying energy use (KWH)				
Total Scope 1 Energy use	Combustion of fuel & operation of facilities (Natural Gas, fleet fuel oils, company cars & LPG)	**98,224,487**	141,717,583	142,579,395
Total Scope 2 Energy use	Electricity	**170,968,398**	224,154,292	193,372,954
Total Energy use (KWH)		**269,192,885**	**365,871,875**	**335,952,349**

Energy efficiency initiatives

Greggs is committed to reducing the energy consumption and the carbon impact from our operations. Last year we set our target of net zero operational carbon emissions across the organisation by 2040 and have put in place a plan aligned to the BRC's Climate Roadmap. We have moved to renewable electricity sources across 96 per cent of our estate and will look to investigate other renewable energy sources for our remaining Scope 1 emissions. We recognise that our value chain emissions are significant and in 2021 we will look to measure our Scope 3 emissions and focus our attention on where we have significant impact.

We've carried out a number of energy efficiency initiatives across the Greggs estate. These include:

- An LED lighting replacement programme;
- Investing in energy efficient equipment;
- Completing ESOS Phase 2 during 2019 and continuing to investigate and implement the opportunities identified; and
- Investing £26 million in a new coldstore facility in Newcastle, which will bring third-party storage in-house.

Our logistics teams have continued to identify opportunities to improve performance, including:

- The use of telematics to improve miles per gallon and drivers' driving style;
- Changing our distribution model and consequently, reducing radial distance (km) by 20 per cent;
- Purchasing our first double-decker vehicle which has a 50 per cent greater carrying capacity and a subsequent reduction in kilometres travelled. We plan to order further vehicles in 2021; and
- Carrying out vehicle fridge unit trials (direct drive and hybrid) and if successful, will look to roll out.

Continued on the next page

Greggs Net Zero Taskforce

We have pledged to become a net carbon neutral business. We are proud signatories of the British Retail Consortium's 'Climate Action Roadmap' looking to share knowledge, best practice and commitment across the industry. We have aligned our ambitions with the BRC's targets:

Scope 2: Net Zero by 2030
Scope 1: Net Zero by 2035
Scope 3: Net Zero by 2040

This means that Greggs will be Net Zero by 2040 – ten years ahead of the current UK Government plan.

We have set up a Net Zero Taskforce made up of key people from across our business who, together, are helping us formulate our plan to challenge the climate impact of every area of our operations and drive action to reduce it.

Our efforts to cut carbon from our business have already been recognised by the Carbon Trust: we are proud to hold the Carbon Trust Standard which is a mark of excellence given to organisations that demonstrate success in cutting their carbon footprint. We are now working with them to model our Scope 3 emissions – indirect emissions that occur in our value chain. This will tell us where the hotspots are in our supply chain, and help us to identify opportunities for improving efficiency.

During 2021 we will... complete the mapping of our whole carbon footprint, enabling us to set science-based targets and plot our pathway to Net Zero.

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Gender of workforce

We are proud of our reputation for bringing the best talent through the business regardless of gender and that 69 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.

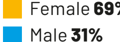
	Female	Male	Total
Board	3	4	7
Senior managers	51	62	115
Other managers	226	253	479
All employees	14,956	6,576	21,538

Notes:
Headcount figures at 31 December 2020. 69% of total workforce is female (14,956 of 21,538).

For info: There are six employees whose gender is recorded as 'Unknown' or 'Undeclared', hence the total figure of 21,538 is not the sum of the Female and Male totals.

Total number of employees

21,538



Female **69%**
Male **31%**

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GREAT TASTING, FRESHLY PREPARED FOOD

You cannot beat freshly baked, freshly prepared food. With our great flavours, responsibly-sourced ingredients, consistent quality and outstanding value – our food-to-go leads the way.

A new award-winning vegan launch got us off to a great start but when the pandemic struck, our teams did a great job of focusing on our core best-sellers, maintaining an essential service under Covid-secure conditions.

For those customers able to stay at home, we moved quickly to bring Greggs to them, partnering with Just Eat for delivery, and ramping up supplies of our home-baking range sold through Iceland.

Continued on the next page

Vegan victory

Hot on the heels of the success of our award-winning Vegan Sausage Roll, hailed PETA's 'Product Launch of the Year' in 2019, we launched our Vegan Steak Bake in early 2020. It's proving a welcome addition to our growing vegan range, and PETA declared it the 'Best Vegan Pasty', 2020.

Bake your own

Our long-standing partnership with Iceland saw record-breaking sales in 2020 as many more customers baked their Greggs favourites at home. We further extended our range with Iceland, including the introduction of the eagerly anticipated Vegan Sausage Roll earlier this year.

Plans for 2021

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

We will continue to expand delivery through Just Eat, adding more locations and choice across the menu and introduce options for evening consumption.

Our partnership with Just Eat

In 2020, our Just Eat partnership was rolled out at breakneck speed to over 600 shops nationwide, meaning more and more customers can enjoy Greggs from the comfort of their own homes. In 2020 we launched our Pizza Sharing Boxes exclusively with Just Eat, alongside our single slice and meal deal offers.

We have big plans to further-expand delivery in the coming year, adding more locations and choice across the menu to strengthen our delivery proposition throughout the day, bringing our best customer offering to more customers and homes across the UK.

Working in partnership, we've created significant awareness that Greggs is exclusively available for delivery on Just Eat, via national advertising and digital communication.

603
shops and counting

220
cities and towns across the UK, serving over

700K
customers

We've already fulfilled and delivered over

1.4 million
orders

A top-5 brand for delivery from a standing start*

*based on NPD Crest data

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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. Through Greggs Rewards, we are able to build long-lasting relationships with our customers and reward their loyalty.

Our colleagues are amazing. And while that's no surprise to us, 2020 in particular highlighted the strength we have in our people as they rose to the many challenges that we faced as a business. Adapting to work under Covid-secure conditions has brought out the best in us as we fought to maintain our services in all parts of our business, whether in shops, our supply chain, or amongst our staff who were working at home.

Our shop teams remained enthusiastic and committed as the Covid-19 guidelines evolved over time, and ensured our customers received the same warm welcome and tasty products they know and love.

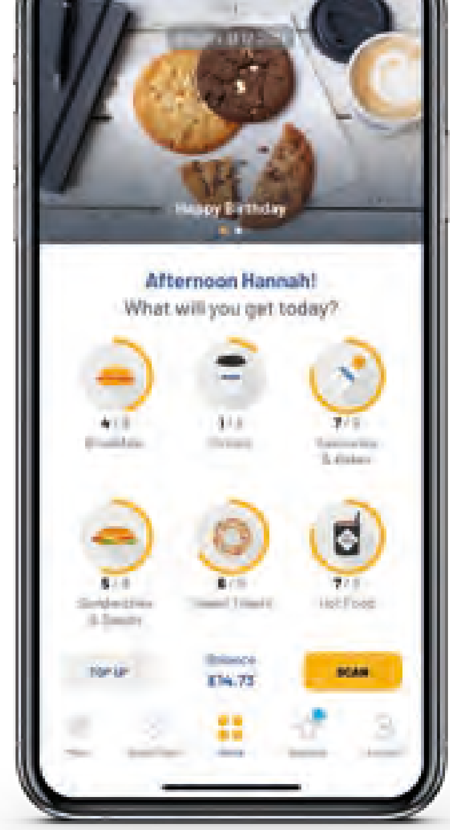
Continued on the next page

Full steam ahead with Next Generation Greggs

While we had to adapt our operations radically to be Covid-secure, we were also determined not to let the pandemic slow down progress with our strategic plan.

Following successful trials in 2019, we launched our multi-channel digital transformation programme in January: 'Next Generation Greggs' – not knowing that it was about to become even more important.

With more and more customers looking for options such as Click + Collect or home delivery, we ramped up our efforts, with accelerated plans and digital capabilities, rolling out new services including an enhanced Greggs Rewards offer, a brand new Click + Collect service and nationwide delivery with our partner, Just Eat.



Our improved Rewards scheme

We've improved our digital channels significantly and evolved the ways that we can connect with our customers. Our new and enhanced loyalty programme allows customers to earn rewards right across our range, not just for buying coffee, creating more reasons for them to choose Greggs and more opportunities for them to connect with their favourite food-on-the-go brand.

Our new rewards scheme is already proving popular; driving new memberships, increased spend and more frequent visits.

In 2020 we opened

84

new shops (including 35 with our franchise partners).

Click + Collect

2020 saw, within a matter of weeks, the rapid development and launch of our Click + Collect service, providing a safe and socially-distanced way to shop. Successful early trials meant we were able to roll out to all company-managed shops in the Autumn.

Our Click + Collect offer provides customers with the ability to choose their shop and collection time, and allows them to order a range of Greggs products in advance, ready for collection.

New shops

While the pandemic has prevented many customers from going about their lives as normal, for many others unable to work from home, or needing to travel for essential reasons, our food-on-the-go services have been vital. That has certainly been the case for those customers using cars instead of public transport.

We reignited our shop opening programme in the latter part of the year; focusing mainly on areas where we can provide easy access for customers in cars, (given the switch away from public transport due to the pandemic), including new concessions in Asda and Tesco, in addition to retail parks and petrol forecourts with our franchise partners

With rental levels falling and increased availability of premises, we are also taking advantage of this opportunity to grow our presence in central London, including two units at St. Pancras Station.

Continued on the next page

St Pancras Station

Plans for 2021

We will increase shop numbers and expect to open 100 new shops, including 40 with franchise partners. We will continue to develop our new customer channels to offer our services wherever, whenever and however our customers want us.

100*

New shops expected to open in 2021

*(net new shops), including 40 with our franchise partners.

Coatbridge

Continued on the next page

COMPETITIVE SUPPLY CHAIN

By owning our supply chain, we can make great tasting, freshly prepared food accessible to everyone.

In a year like no other, our supply chain colleagues did us proud, going above and beyond. They worked around the clock to maintain shop supplies while adapting to the ever-changing shop closures.

Despite the many challenging circumstances of 2020, our team made outstanding progress on our key strategic projects.

Continued on the next page

Flood at our bakery and logistics site in Treforest

Even before the difficulties presented by Covid-19, our supply-chain teams began the year responding to the challenges of a flood, which led to the temporary closure of our bakery and logistics site in Wales. The Treforest Bakery sits adjacent to the River Taff, which on the 16 February 2020 breached its banks, caused by the heavy rain that Storm Dennis had brought to South Wales and the West.

The whole site was under three feet of water, including the Treforest Distribution Centre warehouse. Our first priority was to ensure the safety of our colleagues, followed by the wait for the waters to subside so we could assess what damage had been caused and begin the clean up.

In true Greggs style, our colleagues rallied together to start removing the water that had submerged our bakery and warehouse. This was a tremendous effort by the team, who also had to make safe all the plant and machinery and safely dispose of all food products. Our insurers confirmed substantial damage and that it would be months before we would be fully operational once again.

To ensure we could distribute products from other manufacturing sites to our shops in the West, the team devised a plan to get the logistics side of the bakery decontaminated, dried and signed off, and ready to commence picking and delivery operations. This plan saw us fully operational in a matter of weeks. The bakery side of the operation took longer to recover, and twelve months later we were in a position to once again make bread at Treforest.

When the floods struck in 2020, the site's record investment project, designed to ensure capacity and support our operations and shop growth for the long-term, had not long started. Through the team's tenacity and dedication, this project is now due for completion in April 2021.

Project Triton

Designed with sustainability in mind, Project Triton highlights our commitment to Net Zero Greggs.

In 2020, we commenced the build of Project Triton, our £26 million investment in frozen storage and distribution capability at our Balliol logistics site in Newcastle upon Tyne. The new facility will have capacity for 14,000 pallets, allowing us to consolidate the manufacture of frozen products into a single point of storage and distribution, leveraging cost and efficiency savings, as well as providing much needed capacity for growth for many years to come.

We expect Triton to be operational in mid-2021. We considered carbon efficiency at every stage of the construction process, including:

- Refrigeration: Water-cooled variable refrigerant flow which recovers and reuses heat, designed to maintain temperature more efficiently, meaning less energy is needed;
- LED lighting in offices instead of the more energy-hungry, incandescent style of bulb;
- Thermal-efficient dock system: Minimising heat gains and maintaining cool chain with minimal air leakage;
- Use of 100 per cent recyclable insulation panels;
- 12 electric charging points installed in the car park; and
- Full rainwater drainage system, including provision for collecting storm rainwater, through the use of underground storage tanks.

A major milestone in our journey to fully centralised and automated production

During 2020, we installed the last of our central manufacturing platforms at Clydesmill, near Glasgow. This centralised approach has allowed for improved product quality and consistency and greater efficiencies, with resultant volumes greater than original expectations.

This structure has also been a huge benefit in being able to cost-effectively respond to the challenges of Covid-19, allowing for greater control of range and capacity to meet the changing demands throughout 2020.

Another big year for Project Sunrise – our major process and systems investment programme

During 2020, the project team continued the roll out of our SAP supply-chain solution, despite the disruption to the business caused by the global pandemic.

In September, the team implemented the SAP system onto the bread rolls technology platform at our Enfield bakery. The team also implemented the manufacturing and logistics solution at our first combined site in Manchester in October 2020. In addition to this, we integrated our SAP system with one of our third-party logistics providers (The Ice Company).

We are continuing to make good progress into 2021, with the aim of rolling out the system to the remainder of the supply chain by the end of the year.

Plans for 2021

2021 will be another big year for our supply chain as we complete SAP systems roll out as well as our £26 million investment in our new automated frozen storage and distribution capability at our Balliol logistics site.

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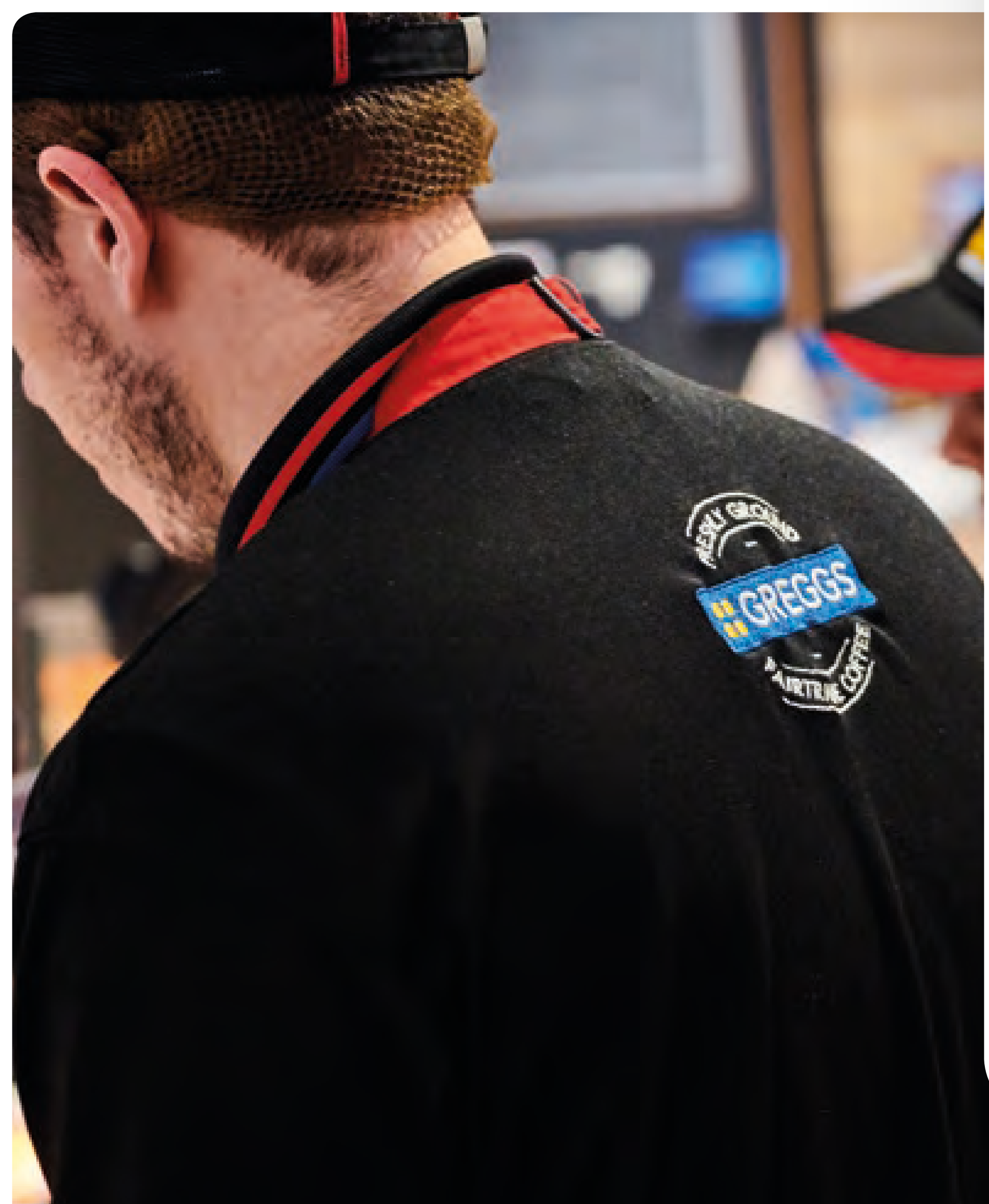


FIRST CLASS SUPPORT TEAMS

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

Our investment in modernising our IT systems and core business processes certainly paid off in 2020, enabling us to continue 'Business as Usual' when our colleagues were required to work from home.

When it became apparent that remote working was going to be the new normal, we were able to rapidly roll out modern office working tools, including Office 365, enabling us to work together as teams, while working remotely, and we have established new tools and ways of working along the way.

Plans for 2021

Digital will be the focus for our teams in 2021 with the launch of our new Greggs Rewards App and new website, followed by a new CRM platform. Digital system solutions will also support the introduction of allergen product labelling and new customer service options.

Continued on the next page

Responding to the pandemic: supporting families in crisis

Supporting our local communities has always been at the heart of our approach. During 2020 we pulled out all the stops to help families struggling during the pandemic.

Food donations

When we had to close our doors at the start of the national lockdown in March, we made it our mission to redistribute all unsold and surplus food to those most in need. We also organised deliveries of sweet treats to the NHS and other key workers as a small token of our gratitude.

Continued on the next page

Tackling holiday hunger

The Greggs Foundation team offered £500 to each school in our Breakfast Club network to help them provide food parcels to send home to their most vulnerable families before the schools closed their doors in March. Within a matter of days, the team had assessed and processed funding for over 450 schools. They continued to work with the schools and their families throughout the lockdown, helping to support the most vulnerable children. In total over £247,000 was awarded to the school network during those first eight weeks and a further £250,000 later in the year to help schools provide food parcels during the school holidays.

Emergency grants

During the spring lockdown the Greggs Foundation team also awarded over 220 emergency grants in small awards of £200-£1,000 to help local initiatives where people were providing support for their communities – a total of £114,000.

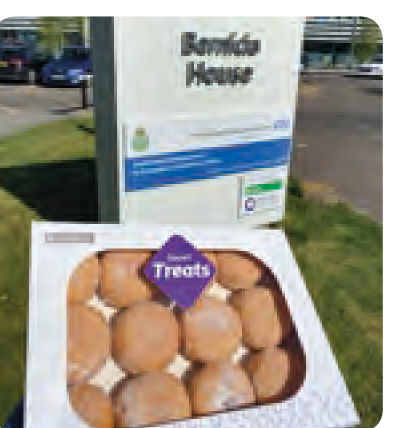
Hardship grants

The pandemic stretched many families to their limits. The Greggs Foundation team did all they could to support struggling families through their hardship grant programme, extending access to it via the Breakfast Club schools. These grants helped to provide families with essential white goods, beds or bedding, supermarket vouchers or clothing vouchers.

The Foundation's reputation for managing hardship grant programmes attracted additional funding from other partners, including £100,000 from the Barclays 100x100 Community Relief Fund, £1 million from the government's Community Match Challenge scheme and £40,000 from the Community Foundation Tyne & Wear and Northumberland. The Greggs Foundation trustees also drew on their investment reserves to boost support for families and individuals in hardship at this critical time.

£775K

Total amount the Greggs Foundation team helped to get to people in need, in the form of hardship grants during 2020.



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The Greggs Pledge

In February 2021 we launched the Greggs Pledge which declared ten things that we are doing to help make the world a better place by 2025, and beyond.

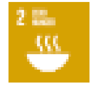
We have always been committed to doing the right thing, but we wanted to be more specific about how we channel our efforts and resources into doing good. We reflected on what we could do to have the most positive impact on the world around us, and have chosen to dedicate our efforts to three areas: **communities, the planet, and our approach to business**. We have set ourselves ten stretching targets to be achieved by 2025. Each of our pledges aligns with at least one of the UN Sustainable Development Goals (SDGs).

Stronger, healthier communities

We pledge to play our part in improving the nation's diet by helping to tackle obesity, providing free breakfasts to schoolchildren, and giving surplus food to those most in need.

1. **Growing Greggs Breakfast Clubs:** By 2025, we will support 1,000 school Breakfast Clubs providing some 70,000 meals each school day.
2. **Putting an end to food waste:** By 2025, we will create 25 per cent less food waste than in 2018 and will continue to work towards 100 per cent of surplus food going to those most in need.
3. **Supporting our communities:** By 2025, we will have 50 Greggs Outlet shops providing affordable food in areas of social deprivation, with a share of profits given to local community organisations.
4. **Helping our customers to make healthier choices:** By 2025, 30 per cent of the items on our shelves will be healthier choices, and we will attract customers through education and promotions.

Related Sustainable Development Goals

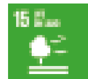


Safer planet

We pledge to become a carbon-neutral, zero-waste business.

5. **Going carbon neutral:** By 2025, we will be on our way to achieving carbon neutrality by using 100 per cent renewable energy across all of our operations.
6. **Building the shops of the future:** By 2025, 25 per cent of our shops will feature elements from our Eco-Shop 'shop of the future' design.
7. **Using less packaging:** By 2025, we will use 25 per cent less packaging, by weight, than in 2019 and any remaining packaging will be made from material that is widely recycled.

Related Sustainable Development Goals



Better business

We pledge to increase the diversity of our workforce, and to use our purchasing power responsibly, with the aim of making things better in our supply chain.

8. **Embracing diversity:** By 2025, our workforce will reflect the communities we serve.
9. **Sourcing sustainably:** By 2025, we will have a robust, responsible sourcing strategy in place and will report annually on progress towards our targets.
10. **Protecting animal welfare:** By 2025, we will secure and maintain Tier 1 in the BBFAW Animal Welfare standard.

Related Sustainable Development Goals

Continued on the next page

Stronger, healthier communities

We pledge to play our part in improving the nation's diet by helping to tackle obesity, providing free breakfasts to schoolchildren, and giving surplus food to those most in need.

The British people made Greggs the success story it is today, and we have always looked for ways to give something back to them. Way back in the sixties we started with our free pie 'n' peas suppers for older residents in Gateshead and, today, give one per cent of our pre-tax profits to the Greggs Foundation. As a food business, we know that hunger and obesity are the issues where we are best placed to make a difference.

By the end of 2021, we will have...

680

Breakfast Clubs

1. GROWING GREGGS BREAKFAST CLUBS

By 2025, we will support 1,000 school Breakfast Clubs providing some 70,000 meals each school day

For various reasons, many kids sadly don't get the right start to their day. Hungry children find it harder to concentrate and learn, ultimately impacting their academic attainment. Giving children a good start to their day gives them a good start in life, so, in 1999, we launched our Breakfast Club programme to provide a free breakfast to children who need it.

Today there are 600 Breakfast Clubs across the UK, serving wholesome, free breakfasts to around 39,000 children every school day – that's 7.6 million meals a year.

We directly fund 307 of these clubs through the Greggs Foundation, and have welcomed on board 104 local and national partners who provide grants to cover the costs of the other clubs.

2. PUTTING AN END TO FOOD WASTE

By 2025, we will create 25 per cent less food waste than in 2018 and will continue to work towards 100 per cent of surplus food going to those most in need

Our customers love our just-baked savouries and the sandwiches we make from bread baked that day, but our 'daily-fresh' approach presents us with a challenge: we have to bake enough so no-one's disappointed, but anything leftover becomes waste.

We've worked hard to reduce waste at every stage of the process, from our manufacturing sites to our retail forecasting and ordering system. Any unsold food left at the end of the day is offered to charities that can pass it on to people who need it in the local community. By the end of 2020, we had 1,590 organisations regularly collecting unsold food from us.

By 2025, we hope to be providing one million meals for people in need every year. However, our ultimate vision is for *every* unsold, perishable food item to be saved from the bin.

By the end of 2021, we will have...

reduced the amount of food waste we create in our manufacturing operations by

10%

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3. SUPPORTING OUR COMMUNITIES

By 2025, we will have 50 Greggs Outlet shops providing affordable food in areas of social deprivation, with a share of profits given to local community organisations

Millions of people in the UK don't have enough to eat, or are living with the anxiety of not knowing where their next meal is coming from.

We currently have 13 Greggs Outlet shops around the UK where day-old food products are sold at a big reduction, helping people to spend less on food. We want to increase the number of Outlet shops to enable more people in the UK's more deprived areas to get our products at a big reduction.

By 2025, we intend to increase the number of Outlet shops to 50.

We donate a share of our profits from these shops to the Greggs Foundation which passes it on to local community groups that are working to address food poverty and associated problems.

By the end of 2021, we will have...

30

Greggs Outlet shops

4. HELPING OUR CUSTOMERS TO MAKE HEALTHIER CHOICES

By 2025, 30 per cent of the items on our shelves will be healthier choices and we will attract customers through education and promotions

Our customers lead increasingly busy lives, meaning that convenience is often one of the most important factors influencing their food choices. We want to be the nation's favourite destination for food-on-the-go but aim to ensure that 'convenient' goes hand-in-hand with 'healthy'.

Our Balanced Choice range is made up of products with good nutritional content and each contain fewer than 400 calories. We provide calorie and nutritional information for all of our products either on shelf, or through our website and mobile app.

We have reformulated many of our traditional bakery products to reduce the amount of sugar, salt, fat and calories they contain, whilst remaining true to their great-tasting heritage. We have also developed vegan versions of our best sellers, helping people to lower their meat consumption.

By the end of 2021,

25%

of the items on our shelves will be healthier choices.

Continued on the next page

Safer planet

We pledge to become a carbon neutral, zero waste business.

The planet is facing a climate emergency and we acknowledge our responsibility to do everything we can to reduce our environmental impact.

5. GOING CARBON NEUTRAL

By 2025, we will be on our way to achieving carbon neutrality by using 100 per cent renewable energy across all of our operations

Today, 96 per cent of the electricity we use is from renewable sources, and is therefore carbon neutral. By 2025, we want to be using 100 per cent renewable electricity.

We are proud signatories of the British Retail Consortium's 'Climate Action Roadmap' meaning that we have committed to be Net Zero by 2040 – ten years ahead of the current UK Government plan.

During 2021, we will complete the mapping of our whole carbon footprint, enabling us to set science-based targets and plot our pathway to Net Zero.

READ MORE ABOUT OUR COMMITMENT TO NET ZERO GREGGS ON PAGE 22.

By the end of 2021, we will have...
completed Carbon Footprint modelling (Scope 3).

6. BUILDING THE SHOPS OF THE FUTURE

By 2025, 25 per cent of our shops will feature elements from our Eco-Shop, 'shop of the future' design

We're always on the lookout for new, green technologies that might work for Greggs. We've created a template for a shop that incorporates sustainable thinking from the design stage. The template considers how we build our shops, and what we make them out of, as well as the technology and fittings that we install and run inside them. It even considers how we decommission the shop and recycle components from it. This 'shop of the future' template is helping us to push the boundaries of what is possible. We call it our Eco-Shop design.

By 2025, we want at least a quarter of our shops to feature elements from the Eco-Shop design.

By the end of 2021, we will have...
created the initial design and operational requirements for our Eco-Shop.

Continued on the next page

7. USING LESS PACKAGING

By 2025, we will use 25 per cent less packaging, by weight, than in 2019 and any remaining packaging will be made from material that is widely recycled

Product packaging is obviously a necessity. We use it to keep things fresh and uncontaminated in our supply chain, and our customers need it to carry their purchases away from our shops. However, we want to make sure we are not using more than we need to.

We started with plastic and, in 2019, cut 350 tonnes of single-use plastics from our operations. By 2025, we want to eliminate all unnecessary single-use plastic from our shops and manufacturing sites.

After plastic, our next biggest focus area is coffee cups. We are working with our industry peers to develop sector-wide improvements in the way we manage coffee cup usage and disposal.

By the end of 2021, we will have...
reviewed all packaging against 'On Pack Recycling Label' (OPRL) criteria.

Continued on the next page

Better business

We pledge to increase the diversity of our workforce and to use our purchasing power responsibly, with the aim of making things better in our supply chain.

By being a successful business, Greggs makes a meaningful contribution to the economy each year through providing jobs and paying tax. We have always strived to be a good corporate citizen and aim to treat everyone – our colleagues, suppliers, partners and customers – with fairness, consideration and respect.

8. EMBRACING DIVERSITY

By 2025, our workforce will reflect the communities we serve

We're proud of our reputation as a good employer, but we're not complacent and recognise that there is more that we can do, particularly in the area of diversity. We want everyone to feel welcomed at Greggs and our colleagues to feel able to be themselves at work, whatever their background, preferences, or views. We also want to make sure there are no barriers that might stop anyone from building a successful career with us.

We signed up to the National Equality Standard in 2017 and renewed our commitment in 2020.

We are working hard to improve the data we hold for our colleagues in relation to their gender, ethnic origin, sexual orientation and whether or not they have a disability. Knowing this will help us to develop plans to ensure we grow as a diverse company, representative of the communities we serve.

By the end of 2021, we will have...
completed the assessment process for the National Equality Standard.

Continued on the next page

9. SOURCING SUSTAINABLY

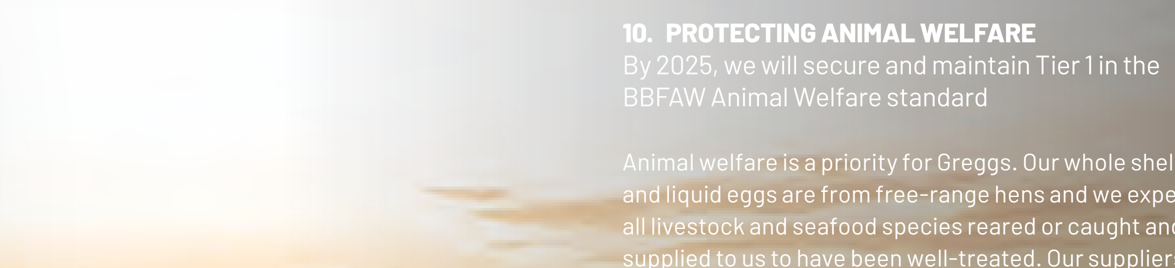
By 2025, we will have a robust, responsible sourcing strategy in place and will report annually on progress towards our targets

When it comes to sourcing the ingredients that we need to make our products, or the goods and services that enable us to run our business, 'sourcing sustainably' means taking care that they are produced and delivered responsibly.

We treat our suppliers fairly and respect the human rights of workers in our supply chain. We are big supporters of British Business and many of our suppliers are local, but we also choose to source Fairtrade products which empowers farmers and workers in the developing world to improve their living standards.

We don't want to buy products that cause deforestation and are careful in how we procure paper products and anything containing palm oil.

By the end of 2021, we will have...
ensured all direct purchases of soy are verified as 'Identity Preserved' and have completed a review of all other uses of soy in our ingredients.



10. PROTECTING ANIMAL WELFARE

By 2025, we will secure and maintain Tier 1 in the BBFAW Animal Welfare standard

Animal welfare is a priority for Greggs. Our whole shell eggs and liquid eggs are from free-range hens and we expect all livestock and seafood species reared or caught and supplied to us to have been well-treated. Our suppliers must meet or exceed farm-animal welfare regulations. We've set out these expectations in the Greggs Farm Animal Welfare Standards, a clear set of rules that we developed with consideration of the Farm Animal Welfare Committee's 'Five Freedoms'.

We participate in the annual Business Benchmark on Farm Animal Welfare (BBFAW) and, by 2025, intend to secure and then maintain Tier 1 rating. To do this, we are stepping up our efforts in the areas of management commitment, policy, governance and performance monitoring.

By the end of 2021, we will have...
...developed and implemented our roadmap to achieve

TIER 1 RATING

Continued on the next page

Financial Review

Financially, 2020 was a year of two very different halves. The period to June included an extensive lockdown period, where our shops were closed and we relied on financial support from a number of government-backed schemes. In the second half of the year we took action to reduce this reliance and saw a progressive strengthening of business performance, albeit materially impacted by Covid-19 restrictions, supported by the development of new digital channels. Whilst the outlook remains challenging, we have a strong balance sheet that is supporting our growth ambitions whilst protecting the interests of all of Greggs' stakeholders.

	2020 £m	2019 £m
Revenue	**811.3**	1,167.9
Operating (loss) / profit	**(7.0)**	114.8
Finance expense	**(6.7)**	(6.5)
(Loss) / profit before taxation	**(13.7)**	108.3
Income tax	**0.7**	(21.3)
(Loss) / profit after taxation	**(13.0)**	87.0

Actions to ensure liquidity

In March 2020 Greggs' shops were closed in response to the first national lockdown and it was clear that access to additional liquidity would be required in order to support the business through a significant period of closure. Actions were taken to preserve cash, including the furloughing of most employees with support from the Government's Coronavirus Job Retention Scheme (CJRS), cancellation of the previously-declared final dividend for 2019 and halting capital projects.

In April 2020 the Company established its eligibility to draw on the Bank of England's Coronavirus Corporate Financing Facility (CCFF) and issued £150 million of commercial paper to ensure that it maintained a strong financial position in the face of what was then an uncertain period of closure. In December 2020 the Company put in place a £100 million revolving credit facility with a syndicate of commercial banks. This gave us confidence to redeem the CCFF commercial paper and, along with a net cash balance at the end of the year, has put us in a strong financial position going into 2021.

Sales

Total Group sales for the 53 weeks ended 2 January 2021 were £811.3 million (2019: £1,167.9 million). The reduction in sales year-on-year reflects the closure of the Greggs shop estate for most of the second quarter of 2020 due to the national lockdown in response to the coronavirus pandemic. Sales in the second half of the year were also significantly lower than normal as a result of social distancing measures and further restrictions that limited the number of customers out of home.

Reporting 'like-for-like' sales (sales in company-managed shops with more than one calendar year's trading history) is a key alternative performance measure for Greggs as it shows underlying estate sales performance excluding the impact of new shop openings and of closures. The table below shows the monthly like-for-like sales level in the second half of 2020 as a proportion of that in the same period of 2019:

	Jul*	Aug	Sep	Oct	Nov	Dec
Company-managed like-for-like sales as percentage of 2019 level	64.9%	68.0%	76.1%	80.1%	76.7%	85.7%

* The full estate reopened on 2 July

Looking forward to 2021 there will be periods where the Greggs estate was closed in the comparative period of 2020. In order to show a consistent measure of sales recovery versus pre-Covid-19 levels we intend to report the level of like-for-like sales achieved in that period of 2021 versus the 2019 level.

An important feature of the improving trend in like-for-like sales from company-managed shops has been the contribution of delivery services, which were rolled out

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nationally across the second half of 2020. In the fourth quarter of the year delivery represented 5.5 per cent of company-managed shop sales, supplied by 600 of our shops that now provide delivery services to catchments served by Just Eat. We expect this to increase to around 800 shops in 2021. Delivery channel transactions typically have a much higher average transaction value (ATV) than those from walk-in customers. Whilst the percentage margin from a delivery transaction is slightly lower than the walk-in equivalent there is a benefit from the incremental delivery transactions and their higher ATV.

Loss for the year

The loss before tax in 2020 was £13.7 million (2019: £108.3 million profit), with a loss of £65.2 million in the first half followed by a £51.5 million profit in the second half of the year. The loss for the year included a £0.5 million profit from property disposals (2019: £0.7 million) and a £0.8 million charge in respect of exceptional items (2019: £5.9 million charge).

The exceptional charge of £0.8 million relates to redundancy costs and costs arising from transfer of operations associated with our multi-year programme of investment in our supply chain and has been separately identified in the interests of consistency with the treatment adopted in previous years. The programme is now largely complete and it is unlikely that any remaining costs will be sufficiently material to be separately classified.

The result for 2020 reflects a number of factors that have not been classified as exceptional but are described below because of their materiality:

- The three-month closure of the Company's shop estate in the first half of the year resulted in stocks of some food and drink items being unusable within the business. These were donated to good causes wherever possible but the total charge for write-offs and stock provisions was £9.0 million;
- Asset impairment charges and onerous shop operating costs have been recognised as a result of the challenging trading environment. The acceleration of the closure of 38 shops crystallised impairment charges amounting to £5.4 million and we have provided for £2.5 million in onerous costs directly linked to these leases, for example rates, service charges and insurance. A further £8.6 million charge was made for the impairment of 87 shops which continue to trade but are unlikely to recover the full carrying value of their assets;
- Incremental costs of £9.3 million were incurred to put in place additional protective measures across the business, including a proactive virus-testing programme at our manufacturing and logistics sites. Heading into 2021 we are incurring monthly costs of around £1 million in respect of additional cleaning, protective workwear and testing;
- The Company relied on support for employment from the CJRS; this totalled £87 million in 2020. By the end of the year the rate of CJRS support had reduced to c.£200k per week and related to the protection of employment for team members who were shielding or unable to work because of lockdown restrictions;
- In the fourth quarter of the year the Company entered into a collective consultation with union and employee representatives with the aim of reducing employment costs to reflect lower-than-normal business activity levels. The consultation process minimised the number of job losses but, unfortunately, still resulted in 820 redundancies. The one-off cost of these redundancies was £10.2 million and has lowered ongoing annual employment costs by £14.4 million; and
- A business rates holiday for retail, hospitality and leisure businesses provided relief totalling £18.8 million over the period April to December 2020. The sector-wide support is currently due to continue until June 2021.

Overall wage cost inflation was 3.5 per cent in 2020. A pay increase for staff was implemented but the planned increase for managers was cancelled and, for five months of the year, all directors took a voluntary reduction in salaries and fees in order to protect the cash position of the business. Looking forward the impact of National Living Wage increases will be less significant than has been the case in recent years and, consequently, overall wage and salary inflation is expected to be around 2.3 per cent in 2021.

The rate of food, packaging and energy cost inflation eased in the second half of 2020 as the demand for commodities weakened. In the year ahead we expect overall cost inflation in these areas to be in the range of one to two per cent.

Greggs has continued to pay its shop rents through the pandemic but we have moved the basis of payment to 'monthly in advance'. This change in the basis of payment has not had a material impact on the valuation of lease liabilities. We have been in discussions with the landlords of our shops to negotiate rent reductions; these discussions are continuing and in a weak rental market we expect to continue to receive better terms from landlords in return for the relative security that comes with Greggs' strong covenant.

Financing charges

The net financing expense of £6.7 million in the year (2019: £6.5 million) comprised £6.5 million in respect of the IFRS 16 interest charge on lease liabilities and £0.8 million interest expense on borrowings under the Company's financing facilities. This was offset by interest received and foreign exchange gains and losses totalling £0.6 million.

In the year ahead the interest expense on borrowings will reflect the arrangement and commitment fees for the

Continued on the next page

Company's revolving credit facility. This is expected to amount to a £1.0 million charge if the facility remains undrawn.

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.

The Group's overall effective tax rate on losses in 2020 was 5.2 per cent (2019: 19.7 per cent rate on profit). The effective rate on losses in the year reflects the impact of a largely fixed level of disallowed expenses for taxation purposes relative to the level of loss for the year together with the revaluation of deferred tax balances.

The introduction of super-deduction capital allowances in the recent UK Budget and the revaluation of deferred tax will affect the Group's effective rate of taxation over the next two years. We expect the effective rate for 2021 to be around 19.0 per cent and the effective rate for 2022 to be around 17.0 per cent. Going forward the effective rate is expected to 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.

Earnings per share and dividend

The diluted loss per share was 11.8 pence (2019: 85.0 pence earnings per share).

Faced with the need to preserve cash during the initial period of lockdown in quarter two 2020 the Board cancelled payment of the previously-declared final dividend for 2019. No interim dividend was declared or paid in 2020 and the Board is not recommending a final dividend in respect of the year.

As trading conditions and profitability improve the Board expects to recommence a dividend distribution. In order to do so the Company must first establish a sufficiently strong net cash position to protect forward liquidity in the case of further interruptions to trading. It is anticipated that a progressive dividend policy will again be adopted once trading conditions and business performance have stabilised.

Balance sheet

Capital expenditure

We invested a total of £58.7 million (2019: £86.0 million) in capital expenditure during 2020. The year started with an ambitious programme of investment activity designed to grow our shop numbers and create supply chain capacity for future expansion. In quarter two, in order to protect liquidity, we stopped almost all capital expenditure with the exception of the work on our new, automated cold store at Balliol Park in Newcastle upon Tyne.

As our shops reopened in the middle of 2020 and we became more confident of sustainable trading levels we selectively recommenced capital works. Capital expenditure to support new shop openings was focused on pipeline opportunities in locations which customers typically access by car, these having proved the most resilient under prevailing trading conditions.

Depreciation and amortisation on property, plant and equipment and intangibles in the year was £60.8 million (2019: £59.9 million). A further £51.9 million (2019: £50.8 million) of depreciation was charged in respect of right-of-use assets as a result of capitalised leases.

Our plans for 2021 include capital expenditure of around £70 million. This will include completion of the Balliol Park automated cold store, increases to manufacturing capacity for savoury products and a return to the previous rate of expansion of our shop estate. In this respect we will be investing in around 100 new company-managed shops alongside further openings with franchise partners.

Having invested substantially in the shop estate in recent years we intend to refurbish relatively few shops in 2021 but will continue trials of formats designed to support future plans. The requirement for capital expenditure to refurbish our existing shops will increase in the coming years and we will start to address supply chain capacity to meet the growth opportunities ahead. On current plans we expect this to require capital expenditure of c.£90 million in 2022 followed by c.£100 million in 2023.

Management of 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. With trading conditions currently subdued we have not changed our investment criteria but are looking beyond current trading conditions when evaluating which investments will make strong returns on capital in the medium term.

Working capital

Group net current liabilities were £45.3 million at the end of 2020 (2019: £66.4 million), the overall reduction primarily reflecting lower-than-normal levels of trading and tax liabilities along with a lower cash balance. Trade and other receivables have increased as a result of increased growth in the B2B (wholesale/franchise) channel and provisions for performance-related remuneration are much reduced.

Continued on the next page

Pension scheme liability

The net liability shown on the balance sheet for the Company's closed defined benefit pension scheme increased to £11.9 million (2019: £0.6 million), mainly as a result of the reduction in the discount rate applied to future liabilities. The scheme underwent a full actuarial revaluation in 2020, the results of which are expected to show a deficit in funding. The Company is working with the scheme's trustee to ensure that any funding requirements are met over the medium term.

Cash flow

In a year when there was so much pressure on cash resources it was a great advantage to have started 2020 with a strong cash balance. Following record financial results in 2019 the opening position in 2020 was a net cash balance of £91.3 million. The net cash inflow from operating activities after lease payments in 2020 was £1.5 million (2019: £169.5 million). After capital expenditure and other smaller investing and financing activities the net outflow for the year was £54.5 million (2019: net inflow of £3.1 million), resulting in an end-of-year net cash balance of £36.8 million.

The events of 2020 have demonstrated the importance of ensuring good liquidity. Greggs has consistently maintained a net cash position in order to be able to meet its obligations through a downturn or temporary interruption to its ability to trade. The negative working capital position that is generated by the Company's operations crystalises quickly in the absence of cash receipts from trading. At the end of 2020 we estimate that this working capital outflow would be in the order of £35 million in a situation where Greggs was not able to trade its shops. In addition to this the weekly 'cash burn', assuming continued government support for job retention and relief from business rates, would be around £4 million per week.

The Company's new revolving credit facility allows it to draw up to £100 million in committed funds, subject to it retaining a minimum liquidity of £30 million (i.e. maximum net borrowings are £70 million). This facility is designed to provide protection to the business should it experience further periods of lockdown in the year ahead.

With a net cash position and committed facilities in place the Company is in a position to look beyond short-term trading uncertainties and begin investing in the opportunities that present themselves for profitable growth in the years ahead.

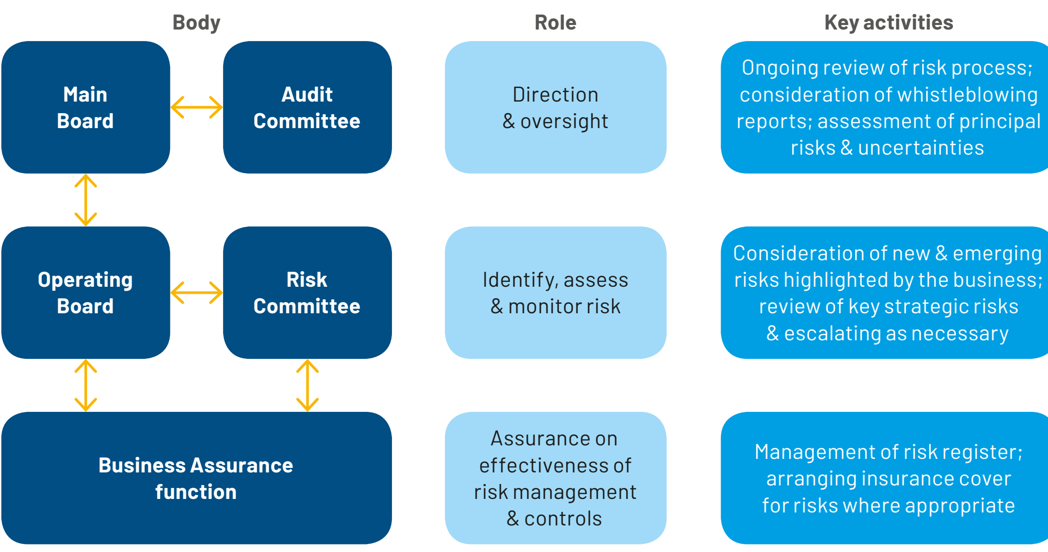
Richard Hutton
Finance Director
16 March 2021

Continued on the next page

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

Our risk management methodology is well-embedded in the business, and gives a holistic view of our risk exposure. The effective taking and management of risks is essential to enable us to meet our business objectives.

The various roles of those involved in the risk process are summarised in the diagram below:



The Board has ultimate responsibility for our risk management approach, and sets the parameters within which risk can be accepted. Elements of this responsibility are delegated to the Audit Committee, including reviewing the effectiveness of the overall risk and assurance approach.

Proactive risk management is the responsibility of the Risk Committee, a management committee comprising representation from across the business which meets at least three times each year. It ensures that mitigation plans are put in place to manage risks appropriately. Each functional area within the business is responsible for the ongoing operational management of existing and emerging risks.

Continued on the next page

Viability statement

The events of 2020 presented a practical test of the contingency plans and assumptions that we have previously presented in our viability testing. The pandemic impact was more significant than anything foreseen by our previous assessment of principal risks, but the planned approach to cash preservation worked as planned, supported by government assistance. The crisis also tested the Company's capacity for borrowing, first through successful admission to the Bank of England's CCFF scheme and then via the establishment of a commercial revolving credit facility. Greggs' resilience was tested thoroughly in 2020 and the Directors have built this learning into the viability assessment described below.

The Directors have assessed the Company's prospects and viability taking into account the ongoing significant uncertainties around the pace at which activity levels will recover from the pandemic, particularly in respect of the relaxation of social distancing measures. The assessment has taken the Company's current position and plans and tested its viability under various scenarios that reflect the occurrence of the principal risks with which it is faced. These include threats to its operations and to the supply of products, both of which have been experienced to some extent over the past year.

In carrying out its assessment the Board has reviewed the three-year operational and financial plans to 2023. 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 impact of the pandemic has been reflected in the risk that the entire business could be temporarily prevented from trading and be faced with prolonged periods of subdued demand, with consequent pressures on liquidity.

The principal risks to which the Company is exposed ultimately affect the ability of its shops to trade successfully, either due to reduced demand or because of operational interruptions, including those to its internal supply chain. A significant loss of sales is 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. Pandemic threat – the risk that the Company is forced to close its shops to walk-in customers for three months each year as a result of lockdown rules, and experiences subdued levels of walk-in trade for the rest of each year. Delivery channel sales are assumed to continue through the lockdown months, as are 'bake at home' sales through the Company's wholesale relationship with Iceland Foods. This forward scenario assumes that government support would continue to be available for the support of employment and that relief from business rates would be available during the periods of forced closure.
2. 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.
3. Temporary loss of production capacity for the Company's iconic pastry savoury products and the consequences for liquidity as capacity is restored.

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

These included:

- The temporary suspension of dividend payments in order to preserve cash for operational use;
- Restriction of capital expenditure whilst protecting essential infrastructure maintenance and commitments to strategic investments;
- Access to government support;
- Drawing on existing committed financing facilities; and
- Calling on the Company's insurance arrangements on the occurrence of an insured risk.

The scenarios tested were capable of being managed within the Company's existing, committed financing facilities. The pandemic scenario presents by far the greatest financial stress to the business. With the Company's shops closed to walk-in customers the net cash outflow, after government support, would be expected to be c.£4 million per week, in addition to which would be a working capital outflow of c.£35 million to settle existing net obligations to creditors.

The Company does not carry committed facilities to the level that could, theoretically, be required in a situation where multiple principal risk scenarios occurred concurrently. In such circumstances the Directors believe that the borrowing capacity of the Company would be sufficient to allow it access to temporary additional facilities.

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.

Continued on the next page

Emerging risks

New and emerging risks facing the business are discussed at each Risk Committee meeting, and are escalated to the Board as appropriate, where the potential impact is considered to be significant. Discussions are informed by matters raised across the business, providing a route for management to escalate any concerns. The Board is also asked to identify and consider new and emerging risks, and seeks assurance that such risks are being properly managed. In considering the new and emerging risk landscape, we have benchmarked our view against other organisations, to inform our discussions and ensure that we have considered all relevant areas. Covid-19 has impacted on a number of our principal risks during the year. This is reflected in our assessment of the movement in risk set out below.

Principal risks and uncertainties

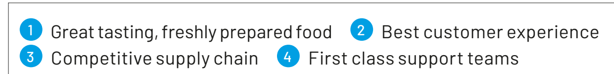
The Directors have carried out a robust assessment of the emerging and principal risks facing the Company, and set out below are those which are considered to present the most significant threat to the business' future development or performance. The position described below is a summary of the status 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, though clearly the ongoing pandemic is the most significant factor.

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, we have refocused one of our technology risks, identified previously, to consider the impact of increased reliance on systems, rather than system capacity.

The principal 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.



What is the risk?	BUSINESS TRANSFORMATION	SUPPLY CHAIN DISRUPTION	MANAGEMENT OF THIRD PARTY RELATIONSHIPS	ABILITY TO ATTRACT/RETAIN/ MOTIVATE PEOPLE
Risk theme	ORGANISATIONAL CAPACITY			
Movement	↓	↓	↑	↓
Strategic pillars	2 3 4	1 2 3 4	1 2 3 4	2 3 4
Key developments	Our current business change programme continues. Expected timelines or savings may not be met, and there may be disruption to our customers.	Our more centralised production and larger distribution centres of excellence create a greater reliance on technology. As a result, the impact of any operational failure on our shops and customers increases.	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. There is also an increasing risk to product integrity, particularly in relation to food fraud.	Market forces 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.
Key mitigations	Our planned timetable has changed to reflect the current environment, with some elements of the programme accelerated, and others postponed. We now have an agreed model which can readily be implemented at our remaining supply sites.	We have processes in place to manage disruption at our sites, and these have been tested during the ongoing pandemic. Our capability to handle such situations has improved, and we have learned to cope more effectively with disruption. The availability of frozen stock also aids our response.	All third parties are vetted prior to engagement, and key supplier relationships are managed by our central procurement team. The impact of the UK leaving the EU has increased this risk due to variability in border controls.	We have developed new, centralised recruitment processes, making application easier for potential colleagues. We offer attractive remuneration and benefit packages to reward our teams and encourage retention. The current economic environment also reduces this risk.

Continued on the next page

RISK MANAGEMENT CONTINUED

① Great tasting, freshly prepared food ② Best customer experience ③ Competitive supply chain ④ First class support teams

What is the risk?	DAMAGE TO REPUTATION	CYBER & DATA SECURITY	RELIANCE ON SYSTEMS	ALLERGENS
Risk theme	BRAND PERCEPTION	TECHNOLOGY	TECHNOLOGY	REGULATORY COMPLIANCE
Movement	↑	↑	↔	↑
Strategic pillars	1 3	2 3 4	2 3 4	1 2 3 4
Key developments	As our profile increases, so does the impact of any reputational damage due to a loss of customer trust. This could result from the sale of unsafe food, or products not meeting customer requirements, for example. Engaging with a wider range of partners could result in a loss of control over our brand.	Our data and systems are exposed to external threats such as hackers or viruses, as are those of all businesses. These could result in data breaches, or disruption to our operation. The threat landscape is constantly evolving. An increase in homeworking due to the pandemic increases this risk.	Greater system integration and interconnectivity results in an increased impact in the event of any process failure or technology outage. Network bandwidth could prove inadequate as we move to a cloud-based IT model.	Increased focus on allergens and associated legislation brings added complexity to our operations.
Key mitigations	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, and utilise third party support where appropriate. All the processes described above are equally applicable to our franchise partners.	We actively monitor our networks and systems, including conducting regular penetration testing. Action is taken to protect against emerging threats. Our approach to information security is closely monitored by the Board.	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.	We continue to progress towards a full allergen labelling solution as required by legislation, developing new processes and controls to ensure compliance. Extensive training is planned, to ensure that our teams are familiar with the complex new working methods. Allergen complaints are fully investigated and appropriate action taken to address the root cause.

Continued on the next page ↓

RISK MANAGEMENT CONTINUED

1 Great tasting, freshly prepared food 2 Best customer experience
3 Competitive supply chain 4 First class support teams

What is the risk?	OTHER LEGISLATION AND TAXATION	SIGNIFICANT FINES FOR NON-COMPLIANCE WITH LEGISLATION	IMPACT OF BREXIT	IMPACT OF PANDEMIC	CLIMATE CHANGE
Risk theme	REGULATORY COMPLIANCE	REGULATORY COMPLIANCE	REGULATORY COMPLIANCE	EXTERNAL FACTORS	EXTERNAL FACTORS
Movement	↑	↔	↓	↑	N/A
Strategic pillars	1 2 3 4	1 2	1 2 3 4	1 2 3 4	1 2 3 4
Key developments	New legislation may necessitate additional processes, or changes to our operations, such as restricting our marketing opportunities. Continued growing concern over the environment and health may drive the introduction of additional levies and taxes, or new government requirements.	Large financial penalties could be imposed on the business for breaches of legislation relating to many aspects of our operation. This risk is higher in the current situation, with broader regulatory requirements and an uncertain political and legislative environment. The rate of change of legislation, and the complexity of new regulations further adds to the risk.	Following the UK's exit from the EU, there remains uncertainty as to the regulatory requirements, with an associated future burden on the business. There is the potential for disruption at borders.	The ongoing pandemic could have an adverse impact on our operations and the demand for our products. It is likely that working patterns and shopping habits will have changed, and there is the potential for a general economic downturn. The availability of liquidity may be restricted.	Changes in climate could impact on our business, both from a physical perspective and as a result of the transition to carbon neutrality.
Key mitigations	We contribute to the development of new regulations via engagement with industry bodies. When new requirements are introduced, we take timely action to ensure we are compliant. Our 'Greggs Pledge' demonstrates our commitment to operating ethically.	We have a system of due diligence controls and monitors in place across the business, to ensure that we continue to comply with requirements. Our audit processes confirm correct procedures are being followed. We have Primary Authority arrangements in place for Food Safety, Health and Safety, and Fire Safety, and have liaised closely regarding our approach to Covid-19.	Actions were taken to ensure that all appropriate measures were in place. Contingency plans will be implemented should there be any disruption to our operations.	We continue to progress with the development of our business model, to provide our products to new customers via new routes, including a rapid rollout of our delivery partnership with Just Eat. Our varied shop locations reduce our exposure to loss of high street footfall. We have demonstrated our ability to continue trading through all levels of restrictions. We have secured access to funding, should it be required.	We have recently published our "Greggs Pledge", which sets out our commitment to sustainability. The ten objectives will underpin our decision making and link closely to our strategy. We are taking action across the business to increase our climate resilience and improve our sustainability.

Continued on the next page

Covid-19

The impact of Covid-19 on the business is referenced throughout this report, but set out below is a summary of actions taken to mitigate the risks facing the business.

Our priority throughout has been the safety, health and well-being of our customers and colleagues.

- Our crisis management protocols were instigated, with daily meetings of a cross-functional team taking place. Our full Operating Board has met at least twice weekly throughout the period;
- Government guidelines have been followed as a minimum at every stage of the pandemic;
- Although not prevented from trading during the first lockdown in March 2020, all shops and all but one of our manufacturing sites were closed while we introduced policies and procedures so that our operations could be carried out in a Covid-secure manner, supporting the safety of our customers and our teams. In the one site that remained in operation supplying Iceland Foods, we rapidly introduced new safe ways of working to include social distancing and face shields;
- Appropriate measures were taken to secure closed sites;
- Where possible, our support teams started to work from home and have continued to do so throughout the pandemic; we have moved to virtual meetings as far as possible;
- Engagement with our suppliers helped to ensure continuity of supply once we were in a position to recommence production;
- Reopening was undertaken on a phased basis, to ensure that we were able to do so safely;
- We have engaged with key external stakeholders throughout the crisis, including regulatory bodies, advisors and government agencies;
- Our teams have been supported with regular communication, including updates from our Chief Executive throughout the period;
- Prompt action was taken to reduce costs including furloughing colleagues and accessing the Coronavirus Job Retention Scheme and other government initiatives, stopping any discretionary spend, and cancelling the 2019 final dividend. We also enhanced our regular financial controls;
- We obtained access to funding through the Covid Corporate Financing Facility scheme, subsequently repaid and replaced with a revolving credit facility through a syndicate of lending banks;
- Operational costs have been tightly managed in our shops, through a reduced range and fewer trading hours;
- Action has been taken to limit travel and access to our sites to cases where there is a clear business need;
- A period of consultation regarding the need to reduce resource levels across the business resulted in 820 redundancies;
- Rent negotiations have taken place with our landlords, and payments changed to a monthly-in-advance basis;
- Capital expenditure has been closely managed, including a short pause in our shop-opening programme and a reassessment of corporate priorities; and
- The planned rollout of new digital initiatives has been accelerated, to provide us with new routes to market. These include our partnership with Just Eat, offering delivery and a Click + Collect service.

The pandemic continues to impact on the business in a variety of ways, and we cannot determine future changes with any certainty.

"Our priority throughout has been the safety, health and well-being of our customers and colleagues."

Continued on the next page

Our stakeholders

The year 2020 will go down as a Covid-19 dominated year, when boards of directors were forced to consider the impacts of a global pandemic on their stakeholders while trying to maintain business as usual, ensure survival and plan to emerge better and stronger.

The world adapted quickly to meeting virtually, and the Directors found new ways to gain an understanding of the pressures faced by the business, and how it could maintain, as far as possible, its strategic initiatives.

Section 172 statement

Our Section 172 statement describes how the Directors, individually and collectively, acting in good faith, have exercised their duties over the course of the year to promote the long-term success of the Company for the benefit of its members as a whole, and in doing so have had regard to the matters set out in section 172(1)(a) to (f) of the Companies Act 2006.

Continued on the next page

Strategic Pillars

1. Great tasting, freshly prepared food
2. Best customer experience
3. Competitive supply chain
4. First class support teams
5. The Greggs Pledge

How and why we engage

CUSTOMERS

Our customers are at the heart of everything we do. Understanding the role we play in peoples' lives is at the forefront of how we plan and operate, so we're constantly evolving our proposition to remain relevant. By speaking to customers in shops, through our Customer Care and Insight teams and across our digital channels – we're constantly listening and learning so we can understand how best to serve the nation.

COLLEAGUES

1 2 3 4 5

Our people are what makes our business successful. We want to provide them with a great place to work, where they feel valued. During the pandemic, we created a dedicated employee portal, with regular Chief Executive updates. We hold regular local listening groups and partnership forums across the business, and have developed channels to provide feedback including colleague suggestion scheme 'Your Ideas Matter'.

SUPPLIERS

1 3 5

By working collaboratively with suppliers who share our values, we can produce high-quality products, while having a positive impact on people and the planet. Regular meetings, joint projects, supplier visits and our Annual Conference are just a few examples. We use the Ariba platform to qualify suppliers and a variety of tools to support our focus on ethics and sustainability.

SHAREHOLDERS

It is our regulatory obligation to inform our shareholders of significant business developments. As a result of the pandemic, we have been required to consider the impact on our shareholders throughout. The Chief Executive and the Finance Director lead on engagement with shareholders in relation to business performance via virtual roadshows following major announcements. The Chairman, Senior Independent Director and Remuneration Committee chair also have regular contact with shareholders in order to ensure that the Board is aware of their expectations in respect of governance.

LENDERS

2 4 5

Following the arrangement of additional liquidity as a precaution against further business interruptions, lenders are now included in our major stakeholders list. Greggs has always maintained good relationships with banking partners and has now agreed a syndicate-backed revolving credit facility. New communication processes have been established to ensure that lenders receive regular updates on business performance, as well as more formal confirmation of covenant compliance.

COMMUNITIES

1 5

The sheer 'localness' of our operations and our longstanding relationship with The Greggs Foundation helps us to better understand the needs of our communities and how we are best placed to make a positive impact. Through initiatives such as supporting Greggs Breakfast Clubs, our food donation programme and working with people in the community to help get them get back into employment through our Fresh Start programme, we aim to build stronger, healthier communities.

Continued on the next page

Impact on Board decisions

CUSTOMERS

The health and safety of our colleagues and customers is of utmost importance. When we reopened our shops we did so under strict Covid-secure conditions, and we utilised the space in our shops, to clearly communicate the important safety messages in line with government guidance. Although footfall related to shopping and office working was significantly impacted, there was a clear need for our services from our customers, many of whom do not work in offices and are classed as key workers. At the same time, we wanted to offer a service to customers who were able to stay at home and so decided to keep our supply lines open to maintain our supply of 'bake at home' lines to Iceland. Our development teams worked quickly to rapidly roll out our Click + Collect and delivery services, exclusively with Just Eat.

COLLEAGUES

Perhaps the most significant decisions taken by the Board in the year related to supporting our 20,000+ colleagues through the pandemic, keeping them as safe as we could when they were at work, and maintaining a level of income if they were furloughed. Feedback from colleagues has influenced the Board's decisions relating to the working environment and access to government support for job retention. In particular, the participation of our colleagues in the consultation process to re-size the workforce to match expected demand was successful in minimising the number of roles lost.

SUPPLIERS

We understand the significance of our custom to our suppliers, and the pressure they were also under during the early stages of the pandemic. With financial support behind us we were able to meet all of our financial obligations, including those to landlords. The Board took the view that the strong long-term relationships that we have with our suppliers and landlords are an asset to the business and it was right to protect this.

SHAREHOLDERS

We understand our shareholders and have discussed their attitude to capital allocation. In the second half of 2021, as cash became available, we prioritised investment for growth, knowing that shareholders value the returns made by the business and are prepared to prioritise this use of cash in the short term.

LENDERS

The Board's experience and up-to-date understanding of the commercial lending market was very helpful in supporting the executive team to establish the new revolving credit facility, ensuring it provided sufficient flexibility for our current and future needs.

COMMUNITIES

Greggs' support for communities is sponsored at a senior level and so the Board was kept aware of the pressures being seen in the communities where we operate as the pandemic took hold. In the face of increased food poverty and hardship in our communities the Board felt it more important than ever to maintain its support for the work of Greggs Foundation and to maintain partnerships with organisations that distribute food to those in need, joining BITC's National Business Response Network to bolster our efforts in this area. The Board supported policies to encourage colleagues on furlough to volunteer their time and to donate food and drink to our NHS and key worker heroes.

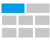
SEE THE GOVERNANCE SECTION ON PAGES 57-70 FOR MORE INFORMATION.

Continued on the next page

Teamwork at its best.

Like so many we have adapted to communicating virtually. This has worked well, making it easier to be in regular contact with management.

Ian Durant
Chairman



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 he was previously Finance Director of Liberty International. Ian is an experienced non-executive director of several UK-listed companies, having 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
On appointment

External appointments
Chairman of DFS Furniture plc.

Non-Executive Director Warren Partners & Chair of Employee Ownership Trust.

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 Managing Director 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 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) before becoming Chief Executive in February 2013

Independent
N/A

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

Independent
N/A

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.

Continued on the next page

BOARD OF DIRECTORS AND SECRETARY CONTINUED

HELENA GANCZAKOWSKI
Non-Executive Director

Helena worked for Unilever for 23 years holding 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
Senior Independent Non-Executive Director and Remuneration Committee Chair of Croda International Plc.

Owner and manager of a consulting business working at a global level with multi-national food businesses.

Committee Membership
Chair of Remuneration Committee. Member of Audit and Nominations Committees.

KATE FERRY
Non-Executive Director

Kate was recently announced as the new Chief Financial Officer at McLaren Group effective from 1 April 2021. She is currently CFO at TalkTalk Group plc, and has previously held positions on 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
Chief Financial Officer of TalkTalk Group (until March 2021).

Chief Financial Officer of McLaren Group (from April 2021).

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 that of 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 Huhtämaki OYJ.

Committee Membership
Senior Independent Director. Member of Remuneration, Audit and Nominations Committees.

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

Independent
N/A

External appointments
Member of the British Retail Consortium Policy Board.

Chair of the Trustees of the Percy Hedley Foundation.

Non-Executive Director of Newcastle Hospitals NHS Foundation Trust.

Committee Membership
Secretary to the Board and all its Committees.

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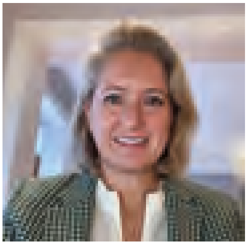
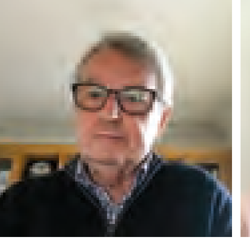
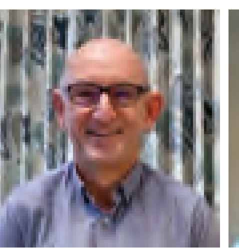
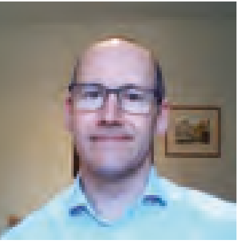
BOARD OF DIRECTORS AND SECRETARY CONTINUED

The Nominations Committee uses a skills matrix as it assesses the requirements for new recruits. This is shown below, with incumbents' attributes:





	Ian Durant	Kate Ferry	Helena Ganczakowski	Peter McPhillips	Sandra Turner	Roger Whiteside	Richard Hutton
UK PLC Executive Director experience	●	●		●		●	●
UK PLC Non-Executive Director outside Greggs	●		●		●	●	●
Finance/Banking	●	●				●	●
Mergers and Acquisitions	●	●		●			
HR & Remuneration Committee experience	●	●	●	●	●	●	
Food manufacturing experience	●			●		●	●
Food retailing experience	●				●	●	●
Food safety, Health & Safety	●			●		●	●
International experience	●		●	●	●		
Broader consumer sector experience	●	●	●		●	●	●
Marketing expertise			●			●	
Digital expertise		●	●			●	
Gender diversity		●	●		●		
Ethnicity diversity							
Corporate governance	●		●		●		

Continued on the next page

Our culture and values will help ensure that we emerge stronger from the pandemic.

Dear shareholder,

This year of extreme and constant uncertainty and disruption to our business from the Covid-19 pandemic has tested the adaptability and resilience of our staff, management teams and the Board. This report will illustrate how the Greggs corporate governance regime has operated in 2020.

Continued on the next page

As you will have seen from my general introduction to this year's report and accounts, the Board has been focused on the health and safety of our colleagues and customers and the governance issues associated with responding to the pandemic.

The responsiveness of the Board and how it has operated

In order to address short-term priorities, and at the same time maintain continued oversight of the business with a balanced view of the longer term in an efficient and safe way, all of our Board and Board Committee meetings were, from mid-March onwards, held via video-conferencing. We did not have the opportunity to visit the shops, bakeries and offices to the extent that we would in a 'normal' year but have kept in touch regularly in other technology-enabled and informal ways. It has been a very busy year for the Board, from steering the Company through the first lockdown in March when our operations were largely closed and there was a need to preserve cash and seek additional debt finance, through the various tier restrictions and lockdowns.

Board composition and roles

All our Directors have served throughout this year. Helena Ganczakowski has, as previously advised, taken on the role of chairing the Remuneration Committee and Peter McPhillips has overseen our colleague engagement activities. As is noted in my statement at the front of this Annual Report, the Nominations Committee will now be considering a process to address CEO succession as Roger Whiteside approaches retirement age. Consequently, I have been asked by the Board to remain as Chair to oversee the change process. The ninth anniversary of my appointment as a Director was on 6 October 2020, and I was appointed as Chair in May 2013, so for a short time during the year we were not fully compliant with Provision 19 of the UK Corporate Governance Code (2018).

Our people

It has been a priority for the Board this year to look after the health and welfare of our people, and listen to their views, while at the same time continuing to serve the needs of our customers amid disrupted operating conditions. Those trading conditions unfortunately necessitated parting company with 820 colleagues in a programme informed by the values of the Company and our previous experience. The effects of the pandemic on the working arrangements and financial rewards of our people have been substantial and the Board has endeavoured to ensure that there is a balance of interests and fairness of treatment.

Culture

Alongside the focus on the impact of Covid-19, the Board has taken time through the year to continue to reflect on culture and engagement. To assist with this, we undertook a review of our Board culture via Heidrick & Struggles' 'Culture Signature', programme. We used this during the course of our internal Board evaluation of the year, as a pointer towards our key focus and objectives for 2021. Regarding culture across the business, the Board has continued to devote time to assessing and evaluating this in a consultative and informed way. More detail on this can be found on page 63 in this report.

Stakeholder engagement

During the year we considered our approach to engaging with various stakeholder groups, recognising the importance of our people, our suppliers (including landlords), our owners, the Government and the communities in which we operate. You can read more about our stakeholders and our approach to stakeholder engagement on pages 51 to 53 and 67 to 70. I continue to welcome feedback from all of our stakeholders on how we are doing in terms of our governance, and where we might improve our approach.

I took the opportunity to meet (virtually, alongside Helena Ganczakowski, our Remuneration Committee Chair) with a number of our major shareholders, to take their feedback on our new remuneration policy, approved by the shareholders at the AGM in May, and our plans for implementing that policy in 2021. We also discussed potential succession, both for the Chief Executive and for my role, in anticipation of future change.

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Environmental, social and governance

At the beginning of 2020, we launched our 2025 sustainability targets, in the form of the Greggs Pledge. Understandably, further progress and the details of our commitments were not released because of the pandemic. However, the Board built on those commitments during the year, to include our plans for achieving net zero carbon emissions by 2040, and the Greggs Pledge was formally launched on 24 February 2021. Further reference to our commitments can be found on pages 34 to 40, and full details can be found at https://corporate.greggs.co.uk/the-greggs-pledge/.

Our diversity and inclusion programme is moving beyond its previous focus on gender, and the coming year should see us reporting on our assessment against the National Equality Standard.

Revised Articles of Association and 2021 AGM

We will be asking shareholders to adopt revised articles of association at the 2021 AGM. This is principally to allow hybrid physical and online shareholder meetings in the future, but we have also taken the opportunity to update the articles given that they have not been tabled for shareholders since 2010. A summary of the proposed changes is set out in the appendix to the Notice of AGM, which in turn is available on the website and a copy of which can be requested from the Company Secretary.

As for the AGM, to be held on 14 May 2021 at 9:00am, we anticipate there are likely to be Covid-19 restrictions still in place in relation to indoor gatherings. Consequently, access to the meeting is unlikely to be permitted. So we would urge shareholders to vote using the proxy form that will be sent out with the Notice of AGM. We had an encouraging increase in the number of shareholders who voted in 2020, with around 73 per cent of the votes cast, an increase from 63 per cent in 2019. Although we will be running a very low key but compliant AGM, in line with restrictions currently in place and anticipated to be in place, shareholders will have the opportunity to view online, and full details are given in the Notice of AGM. We are looking forward with hope to being in a position to welcome shareholders to our meeting in 2022, with an extended presence online.

I invite you to review the following pages, which set out how we have otherwise complied with the UK Corporate Governance Code (2018) across the year, and also our statement on page 51 and pages 67 to 70 describing how the Directors have fulfilled their duties to our key stakeholders under Section 172 of the Companies Act 2006.

Ian Durant
Chairman
16 March 2021

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Colleague engagement

As will be recorded elsewhere, lockdowns, tier restrictions, and social-distancing needs significantly reduced the amount of interaction that Non-Executive Directors have had with colleagues. Nevertheless, the well-established communication channels with our union colleagues, through the Greggs Negotiating Committee, continued to be an effective and valuable forum through 2020 and we swiftly moved into virtual sessions to facilitate ongoing, direct and regular communication. The sessions provided a great opportunity to speak directly with teams to understand their feedback and concerns as we navigated through the year and were attended by our Chief Executive and by Peter McPhillips who, following his reelection at the AGM in May, was nominated as our Non-Executive Director with responsibility for overseeing colleague engagement. Sessions included the following:

- **April 2020 –** the first session after the Covid-19 pandemic had taken hold. Topics discussed included closure of the shops, pay and government support through furlough and the planned trial for a phased reopening of shops and production centres;
- **May 2020 –** The Retail Operations and People Director accompanied the Chief Executive and talked through the shop opening trial, and signage promoting 'Covid-secure' opening arrangements for shops and in bakeries. The plan to move pay for furloughed colleagues back to 80 per cent of salary or contracted hours from 1 July 2020 was also discussed;
- **August 2020 –** the Chief Executive shared the half-year results and a furlough scheme update (which was then due to end in October); and
- **December 2020 –** post-redundancy consultation thanks were given, along with a business update and a look to the future.

Given the impact of the pandemic, management's communication with colleagues was further increased through the use of a web portal. This gave both furloughed and working colleagues access to regular updates from the Chief Executive on the impact of the pandemic, plans to reopen shops and production sites, and general information on how the business was performing.

In September 2020 we moved into a period of collective consultation with all our colleagues, necessitated by the need to resize the business during the anticipated, continuing period of reduced trading as a result of the pandemic. In undertaking this collective consultation, management met with both our colleagues and union representatives on a weekly basis through to November, across our Retail, Supply and Greggs House teams. Sadly, this led to 820 colleagues leaving the business in early November 2020.

Following the conclusion of this consultation our relevant senior management and people teams continued to meet virtually with union representatives from our shops and across the supply sites, in order to ensure that views could be heard and decisions made with regards to the day-to-day management of the business. Discussions generally take place across the year at both local supply sites and within retail regions and are referred to as Joint Consultative Committees. They feed into our National Partnership Forums which are jointly chaired by our Head of People and a Head of Retail/Supply Chain. The National Retail Partnership forum met much more regularly than normal in order that feedback could be sought as operations and guidelines were changed quickly, due to the impact of the pandemic.

Before the pandemic struck, members of the Board were able to attend the annual Management Conference held at The Sage, Gateshead. This allowed Non-Executive Directors to attend sessions on plans for the year, including the launch of Next Generation Greggs and the Greggs Pledge (our ESG programme), and to mix informally with staff from our shops, supply chain and head office, listening to their views on the Company's plans. While we have not been able to engage with colleagues to the same extent in 2020 as we have done in previous years, in 2021 we will be exploring the opportunity for further virtual discussion and debate, until restrictions are lifted.

An Employee Opinion Survey is generally undertaken each year. However, in 2020 management decided that, in the throes of the pandemic, the expense of the survey would not be incurred. However, it is expected that the survey will be relaunched during 2021. Nevertheless, the Board was kept apprised of informal feedback received via discussion groups and social media.

In 2019, the Chairman was accompanied by Non-Executive Directors at a series of 'listening groups' as part of the Board's engagement programme. One such event was held in January 2020, when the Chair and Helena Ganczakowski met with around 20 Greggs House colleagues to discuss the work of the Board in general, interactions with the Chief Executive and Operating Board, and more specifically on the work of the Remuneration Committee. Feedback from that session was positive, with colleagues feeling able to ask questions in an informal environment. There were no further sessions held in 2020, but there is a plan to restart these in 2021, initially virtually, but hopefully in person when Covid-19 restrictions allow.

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Investing in and rewarding the Greggs workforce

As previously reported, the business had performed exceptionally well in 2019, and the Board was pleased to be able to reward colleagues with a special payment in January 2020 to recognise their efforts in the previous year.

Each year, the team undertakes an annual wage review with union colleagues, and as a general rule, whatever is balloted and agreed for shop and supply chain teams is then applied to the management population and to the Directors. Those negotiations didn't conclude until the end of February and the plan was to implement the agreed increase of three per cent in the March payroll, backdated where appropriate. The base pay rate of three per cent was subsequently implemented for supply sites and support teams as of January (backdated in March). The pay award for our retail teams was a base rate of three per cent with an additional 0.6 per cent for certain senior shop grades and an additional 2.5 per cent for our general team members (5.5 per cent in total) – this was implemented in April 2020 in line with the agreement reached with the union.

As the pandemic hit, and lockdown commenced on 23 March 2020, the Board took several decisions regarding remuneration. Firstly, it decided that it would be inappropriate to proceed with the three per cent salary increase for management grades planned for March and, therefore, this was postponed and subsequently cancelled.

Secondly, the decision was taken to maintain the remuneration of those placed on furlough at 100 per cent of salary or contracted hours, at least until 1 July 2020, while at the same time the Board and Operating Board agreed to a voluntary reduction of 20 per cent of salaries and fees, and salary-linked benefits e.g. pension contributions. This reduction remained in place from 1 April until 1 September 2020.

The remuneration of furloughed colleagues was kept at 100 per cent until 1 July 2020, when, in fairness to those who continued to work full-time, the remuneration of those furloughed was reduced to 80 per cent; this was maintained across the year as colleagues emerged from furlough.

As noted in page 84 in the Remuneration Report, the pensions contributions for Executive Directors will be reduced over a five year period until they match those contributions available to the workforce. In this respect the Company was not compliant with Provision 38 of the UK Corporate Governance code during the year.

Board engagement with shareholders

The Chair takes responsibility for ensuring that key shareholders are aware of, and supportive of, the Board's approach to governance, networking widely across the institutional shareholder population, and meeting with larger shareholders. In 2020, the Chair met with several of our largest institutional shareholders, and was accompanied by another Non-Executive Director. These included sessions covering the remuneration policy that was approved at the AGM held in May 2020, and how it was to be applied. During these sessions the Chair was accompanied by Helena Ganczakowski, who took over as Chair of the Remuneration Committee from Sandra Turner following the 2020 AGM.

It was regrettable that, because of the pandemic, we were unable to welcome our 'retail' shareholders to our AGM. In anticipation of similar restrictions in 2021, we are looking at ways to involve all shareholders by giving them the opportunity to ask questions ahead of the AGM.

Following key announcements, the anonymised views of shareholders are reported to the Board by UBS and Investec, the Company's retained brokers, and press and analyst feedback is provided by Hudson Sandler, the Company's financial communications consultants.

Further information on shareholder engagement is set out in the s172 Statement on page 51 and pages 67 to 70 and in the Remuneration Report on page 83.

Division of responsibilities

The Board considers that the Chair was independent on appointment and that 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 Chair communicates regularly with the Non-Executive Directors, both collectively and individually, giving them plenty of opportunity to express their opinions and raise any concerns they may have.

Sandra Turner is the Senior Independent Director. Sandra chairs at least one meeting of the Non-Executive Directors annually, without the Chair being present. There is a clear division of responsibility between the Chair 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.

The Board generally schedules six formal meetings per year, and then on an ad hoc basis as required. These meetings may also be interspersed with informal Board calls, where the Chief Executive and the Finance Director provide updates on trading and business matters generally. In 2020, additional formal meetings were required in order to review and approve the accessing of the Covid Corporate Finance Facility, and ahead of the launching of the redundancy collective consultation exercise.

Continued on the next page

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

Attendance	Main Board	Audit Committee	Remuneration Committee	Nominations Committee
Ian Durant	9/9	–	–	3/3
Roger Whiteside	9/9	–	–	–
Richard Hutton	9/9	–	–	–
Helena Ganczakowski	9/9	4/4	4/4	3/3
Kate Ferry	9/9	4/4	4/4	3/3
Peter McPhillips	9/9	4/4	4/4	3/3
Sandra Turner	7/9	2/4	3/4	2/3

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 Chair 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.

There were no appointments to the Board in the year. However, at the AGM in May 2020, Helena Ganczakowski took over as Chair of the Remuneration Committee, with Sandra Turner remaining as the Senior Independent Director, and Peter McPhillips was appointed as the Non-Executive Director charged with overseeing engagement with colleagues.

Last year it was reported that the Nominations Committee had been reviewing the tenures of all Directors and has prepared a succession timetable to cover the coming five years. As is recorded in the Chair's Statement on page 58 in due course we will commence the search for a new Chief Executive, as Roger approaches retirement age. In recognition of this, and taking into account the disruption to the business caused by the pandemic, Ian Durant has been asked by the Board to remain as Chair in order to oversee succession. Ian was first appointed to the Board in October 2011, and became Chair in May 2013. The Board recognises that by extending his tenure until that date, the Company will not be compliant with Provision 19 of the UK Corporate Governance Code which observes that the Chair should not remain in post beyond nine years from first appointment to the Board. The Board, led by the Senior Independent Director, is of the view that Ian remains fully committed, and it is right and proper that Ian remains in the Chair to oversee such a sensitive and critical recruitment. The potential for this scenario was discussed with several of our largest shareholders during 2020, whose response was supportive.

The Nominations Committee regularly updates a matrix of the skills brought to the Board by all Directors, both Executive and Non-Executive, as the succession strategy is developed. The current matrix is shown on page 56. Core skills that the Board has identified include food retailing and manufacturing, and digital and consumer marketing. As part of Non-Executive Director succession planning, the Board is seeking another Non-Executive Director, and with that appointment hopes to make further progress in developing a more diverse Board of Directors.

The Nominations Committee is currently supported by Heidrick & Struggles. Based on a recommendation from the Nominations Committee, each of the Directors offers themselves for reelection.

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. The Board had 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. The Board had also committed to monitor plans to improve allergen labelling, given that the provision of information and protection to customers with allergies had been identified as a key risk. The Board received regular updates on progress with Next Generation Greggs across the year, ahead of the launch of the new Greggs app which is expected to be in the second quarter of 2021. The allergen-labelling project brought about by Natasha's Law was paused because of the pandemic, having got off to a good start in preparing for the legislation that will come into force in October 2021. Progress included the trialling of tablets containing up to date allergen information for customers, and new processes to ensure the application of the correct ingredient label onto sandwich and other packaging. The project has re-commenced, and will continue to feature in the Board's monitoring in the run up to the legislation coming into force.

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As part of its succession planning, the Board participated in the Heidrick & Struggles' Culture Signature review. This was used as part of the Board's evaluation of its 2020 performance. Findings from that review included:

- There is a very strong, positive culture in the organisation, engendering high regard for colleagues;
- There is a high sense of pride and integrity in engaging with colleagues;
- Whilst a culture of innovation and creativity was among the lower-scoring attributes, nonetheless the scores were generally higher than seen in other organisations; and
- The Board should be wary of the potential for 'group think', ensuring that there is an atmosphere of 'healthy conflict'.

Looking back over the Board's performance in 2020, Non-Executive Directors reported that, even though they had met more frequently across the year, they had felt less engaged with the operational detail than had been previously experienced, as the management team coped with the constantly-changing requirements to address issues brought about by the pandemic. Nevertheless, information flows were good throughout, and the Directors concluded that the crisis had been well-handled. It was generally agreed that 2021 should herald a 'new normal' bringing back as quickly as a possible the engagement activities previously undertaken.

As for the focus in 2021, the Board had undertaken a specific session in 2020 on what ought to be the Company's target for achieving net zero carbon emissions. These are now set out as part of the Board's sustainability strategy, known as the Greggs Pledge, which can be found at https://corporate.greggs.co.uk/responsibility/the-greggs-pledge. It was agreed that the ten commitments forming the Greggs Pledge would be subject to regular scrutiny and progress reporting across the year.

The Board's second key objective was agreed to be the further development of its diversity and inclusion strategy. The Board had received a briefing in September 2020 on the process for achieving the National Equality Standard (NES) and the steps required. It was agreed that significant progress should be made across 2021, starting with the Board undertaking a discussion on 'Inclusive Leadership'. Our diversity and inclusion (D&I) route map is shown in Figure 1 and the plan for 2021 activities in Figure 2.

Figure 1: D&I route map

Figure 2: 2021 D&I activity

Milestone	Timing
Milestone 1 – NES Leadership consultation 1 Leadership interviews will form part of the initial NES assessment to assess levels of current D&I understanding and ambition. This will identify what will be required to achieve full proficiency across the leadership NES pillar and will inform the development of an inclusive leadership programme.	**Dec 2020–Jan 2021** NES Leadership Consultations
Milestone 2 – Inclusive Leadership Delivery Delivery of the inclusive leadership session to Main Board and Operating Board by EY.	**Q1 2021** Inclusive Leadership delivery
Milestone 3 – NES Leadership consultation 2 Further leadership interviews (after document submission process and employee listening through 'scan' assessment) to capture further insight and progress before NES report and assessment is finalised.	**Q3 2021** NES Leadership consultation 2

Our Chief Executive recently co-led the preparation of the British Retail Consortium's 'Better Jobs D&I Charter' that we have now signed, and which, among other things, seeks to take positive action to support open career opportunity and progression. We have also recently joined The Valuable 500, where our commitments to both current and future disabled colleagues includes improving the data we hold for our colleagues including whether they have a disability, and reviewing accessibility in our recruitment processes and the training we provide.

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Women in management

The Board as a whole, rather than the Nominations Committee, monitors the gender balance in the Company. 69 per cent of our colleagues are women, with female workers representing the majority of the workforce in our retail shops. We have a strong representation of women at the most senior level, with three of the five Non-Executive Directors being female, placing us 34th 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. 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 23.

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 28 December 2019 and 2 January 2021 are set out in the Directors' remuneration report on page 99. Details of the Directors' share options are set out in the Directors' remuneration report on page 98.

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 16 March 2021 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	9.90
Blackrock, Inc.	5,198,552	5.12
Standard Life Aberdeen plc	4,215,395	4.17
Aviva plc	3,234,535	3.20

Additional information

- 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 21.

Authority to purchase shares

At the AGM on 13 May 2020, 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 2 January 2021.

The authority remains in force until the conclusion of the AGM in 2021 or 12 August 2021, whichever is the earlier. It is the Board's intention to seek approval at the 2021 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 16 March 2021, there were 101,495,971 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

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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 reelection 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 carry out 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 79 to 101. 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 people 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.

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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 2 to 53, 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 pages 102 and 103. A statement of auditor's responsibilities is given in the report of the auditor on page 111.

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 122).

The Board's viability statement made in accordance with Code provision C.2.2 can be found on page 46.

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.

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Board engagement with stakeholders

The year 2020 will inevitably go down as a Covid-19 dominated year, when boards of directors were forced into considering their stakeholders in the midst of a global pandemic; trying to maintain business as usual, ensuring survival and planning to emerge better and stronger.

Social distancing meant that, for most of the year, Directors were not able to follow their usual method of face-to-face engagement with colleagues, investors and other stakeholders. It was particularly disappointing not to be able to hold our Annual General Meeting in the North East, usually so well-attended by local retail shareholders, and former employees.

The world adapted quickly to meeting virtually, and the Directors found new ways to gain an understanding of the pressures faced by the business, and how it could maintain as far as possible its strategic initiatives.

The previous year, 2019, was a record year, prompting special dividends to shareholders, and a one-off cash bonus for every employee on top of the annual profit share, paid in January 2020. The first nine weeks of 2020 (before any financial impact of Covid-19) delivered company-managed like-for-like sales growth of 7.5 per cent, despite stormy weather in February and the flooding of the production centre in Wales. Against that background, this statement considers how the Directors have approached and met their responsibilities under s172 Companies Act 2006, with a particular focus on how the pandemic has shaped the Board's decision-making.

The table below sets out some of the key matters considered by the Board in 2020

Business as 'usual'	Strategic	ESG
Trading and financial performance including a greater focus on cash flow	Next Generation Greggs – digital strategy	The Greggs Pledge
Shop estate performance	Click + Collect/delivery	Responsible sourcing – palm oil and chicken
Customer insight and our competitive environment	Refinancing to survive Covid-19	Diversity & Inclusion strategy
Food Safety and Health & Safety	Restructuring to reflect lower trading levels	Distributing food waste
Employee Opinion Survey & actions	Succession planning for Board and Operating Board	
Our DB pension scheme investment strategy and trustee succession		
Dealing with Covid-19 – Being Covid-secure – Accessing financial support including CCFF and CJRS		
Reorganising the shop estate and closing loss-makers		

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Commentary by stakeholder

Colleagues

The health and welfare of colleagues is of paramount importance, and at no time in recent history has that been more so than during the pandemic.

Perhaps the most significant decisions taken by the Board in the year related to dealing with our 20,000+ colleagues through the pandemic, keeping them as safe as we could when they were at work, and maintaining a level of income if they were furloughed.

Customers

Following the closure of our shops for three months during national lockdown, we did not know what to expect when we reopened in July with social distancing restricting normal customer behaviour. The health and safety of our colleagues and customers is of upmost importance and to this end, we were very careful not to promote Greggs in a way that would encourage customers not to adhere to guidelines and at one point, abandoned opening trials because of excess social media excitement.

Once we did reopen, it was under strict Covid-secure conditions, with full counter screening and risk assessed procedures for our colleagues. We utilised the space in our shops usually dedicated to marketing messages, such as our windows and digital screens, to clearly communicate the important safety messages in line with Government guidance. Customers were reminded about social distancing, the use of masks and sanitiser, promoting contactless payment and limiting customer numbers into shops.

It soon became clear that although footfall from shopping and office working was significantly impacted there was a clear need for our services from our customers, the majority of whom do not work in offices and many classed as key workers. To give them the best possible service, we concentrated on providing their bestselling favourites.

At the same time, we wanted to offer a service to customers who were able to stay at home and so kept our supply lines open for Iceland. In addition, our development teams worked quickly to rapidly roll out our Click + Collect and delivery services, exclusively with Just Eat.

During the months of closure, we did our best to maintain customer engagement with fun marketing initiatives which included helping customers create their Greggs favourites at home by sharing recipes for our most famous products and providing 'how to' guides and videos.

Looking after our colleagues and customers to emerge from the crisis stronger than ever.

As an 'essential' retailer, our shops were entitled to remain open and trade across the year. However, in the very early days of the pandemic, based on direct feedback, and social media sentiment it was clear to the Board that our colleagues and customers did not feel 'safe' going into our shops, given the warnings coming from government, and the strong 'stay at home' messaging. On 24 March 2020 the decision was taken to close all of our shops, and bakeries, apart from our Balliol savoury production facility and associated packing operation which supplies Iceland Foods.

At that time, there was no real indication of how long the pandemic might affect the business, and the decision was taken that those colleagues who were furloughed should be paid at 100 per cent of their salary, or their contracted hours as appropriate, until at least 1 July. After that date, the Board concluded that it was fair and reasonable to recognise the huge effort being put into responding to the pandemic initially by the few who were not furloughed, and subsequently by a growing number of colleagues as the shop and production estate started to reopen. As a result, furloughed colleagues were paid at 80 per cent of their salary or contracted hours for so long as they remained on furlough.

In the Balliol factory, which we kept open alongside our Iceland packing operation at Seaham, Covid-secure measures were developed to keep colleagues safe. Activities included maintaining social distance and changing working practices to achieve this, reducing numbers allowed in canteens, and creating one-way systems. As planning for reopening the shops was developed, perspex screens were introduced to protect colleagues and customers, sanitiser made available, and where space allowed one-way systems introduced.

It was clear to the Board that, in the throes of the pandemic, with outcomes uncertain, it was critical that the impact of the pandemic on colleagues should be central to the Board's thinking on how the business would emerge from the crisis in a stronger position for the future.

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Suppliers

The decision to close shops at very short notice had a major impact on suppliers, because production sites were also shut down. Significant steps were taken by management to redirect supplies away from production sites, to minimise food waste, in the hope that supplies could be used elsewhere. Future orders were cancelled, but payment obligations were met where mitigation was not possible. The Board recognised the importance of maintaining future relationships with suppliers as part of the business' recovery from the pandemic, and therefore every effort was made to help suppliers find new outlets for their supplies.

Engagement – The Board had a reduced level of engagement with suppliers in the year, but continued to receive reports on management's activities in procurement, and on the impact on our own supply chain operations. Prior to the first lockdown, Peter McPhillips had accompanied our Commercial Director to a third-party bakery production centre, to understand the similarities and differences between that operation and our own.

Shareholders

The Board has a regulatory obligation to inform shareholders of significant developments in its business, and the impact of the pandemic has required the Board to consider the impact on shareholders throughout. The biggest decision that the Board had to make in the year in relation to shareholders was to cancel the dividend that had been proposed with the Preliminary Results. On 23 March, the Board informed shareholders that regrettably no final dividend for 2019 would be paid, as the Board sought to preserve cash whilst it still had significant outgoings to meet, including to landlords, and the wages and salaries of those who continued to work. This was the first time since listing in 1984 that the Company had been unable to pay a dividend, and the Board recognised that this would have wide-ranging implications generally, both for institutional investors who manage various investments and pension schemes, but also for retail investors who rely on dividend income. The Board had clear line of sight to the cash flows needed to allow the business to survive, which would require accessing borrowing, and therefore the decision to preserve cash was on balance in the best interests of the Company.

Engagement – the Chief Executive and the Finance Director lead on engagement with shareholders in relation to business performance. This is done through roadshows following major announcements, and in 2020 those meetings were only done virtually. Additionally, across the year the Finance Director will speak with shareholders and prospective shareholders.

In 2019 and into 2020, the Chair and Remuneration Committee Chair engaged with a number of our major shareholders ahead of the renewed remuneration policy resolution being tabled at the AGM in May. This was done so that any potential concerns from shareholders could be identified and addressed, and consequently 95.7 per cent of those shareholders who voted were in favour of approving the new policy.

Later in the year, the Chair and Remuneration Committee Chair consulted with a number of shareholders concerning the proposed implementation of the approved policy, in light of the impact on the business of Covid-19. The Board recognises the importance of regular and open communication with its shareholders.

Regrettably, the Board was not able to meet with the 80 or 90 retail shareholders that regularly attend the AGM. Despite ongoing uncertainties, options are being developed for engaging with all shareholders in the coming months, and the hope is that there can be a return to normality in 2022.

Lenders

For the first time since the mid-1990s, the Company needed to access significant levels of borrowing in order to ensure that it had sufficient cash to survive the pandemic. When the business largely closed down in March 2020, several workstreams sought to access sources of funds to meet cash requirements. These included government-backed schemes, like the Covid Corporate Finance Facility, and the potential need to ask shareholders for support. The Company had already started to consider putting in place financing via a commercial banking partnership, and this project gained significant added impetus. The Board created a committee to support the Finance Director as he developed each of these options. Thankfully, the Company was successful in accessing the CCFF, and drew down sufficient funds to keep the company solvent even if shop closures lasted the remainder of the calendar year.

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In December 2020, the CCFF moneys were repaid in full, and replaced with a Revolving Credit Facility with two commercial banks, Barclays and Lloyds.

Engagement – The Finance Director is primarily responsible for the relationship with providers of commercial lending. He and a small team participated in a selection process involving a number of potential lenders, and ultimately brought the final decision on participation to the Board for approval. Going forward, the Finance Director will undertake regular dialogue with lenders, and they will become a key part of the Company's stakeholder population.

In the Board's view, this brings a new stakeholder group into its future consideration, as the Board will now develop its relationship with those commercial banks.

Communities

Greggs has a long tradition of showing that it cares about a broad range of stakeholders, and extended reference can be found on pages 35, and 52-53 of this report.

The Greggs Foundation is a beneficiary of at least one per cent of the Company's annual profits, and the Board has had to consider the impact of 2020 on its ability to support the charitable activities of Greggs Foundation. In the face of increased demand for hardship and food poverty support, the Board felt it more important than ever to maintain its support for Greggs Foundation.

This continued support enabled the Greggs Foundation to help families facing crisis as a result of the pandemic, through their hardship grant and emergency grant programmes and tackling holiday hunger programme. More can be found on pages 32-33.

The company has also made significant contributions to the communities in which it operates in other ways, including:

- When we had to close our doors at the start of the national lockdown in March, we made it our mission to redistribute all unsold and surplus food to those in need and we maintained our partnerships with organisations that distribute food throughout 2020;
- Joined the National Business Response Network to really bolster our efforts in this area and support even more people;
- We organised deliveries of sweet treats and drinks to the NHS and key worker heroes as a small token of our gratitude; and
- Encouraged colleagues on furlough to volunteer their time.

By order of the Board

Jonathan D Jowett
Company Secretary
Greggs plc (CRN 502851)

Greggs House
Quorum Business Park
Newcastle upon Tyne
NE12 8BU

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Audit Committee Report

Dear shareholder

As Chairman of the Audit Committee, I am pleased to present the report of the Audit Committee for the 53 weeks ended 2 January 2021.

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, I 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. The Committee meets formally at key times within the reporting calendar and the agendas for its 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. The Company has faced a number of accounting, reporting and risk-management challenges in 2020 as a result of the Covid-19 pandemic and its impact on the business. The Committee has tried to ensure that its reporting on this is clear and allows users of the accounts to understand the impact on our performance, position and prospects. There is further detail on the most significant judgements made in the body of this report.

As previously announced, the Committee conducted an audit tender during the year, as a result of which it recommended to the Board that RSM UK Audit LLP be appointed as auditor. The Board has accepted this recommendation and will propose the appointment of RSM UK Audit LLP at the forthcoming AGM. This report includes further details of the tender process. I would like to record my thanks to KPMG for their work as auditor to the Company for many years.

Key topics for consideration by the Committee in 2021 will be the development of climate-related reporting in order that the Company is reporting in line with Task Force on Climate-related Financial Disclosures ('TCFD') requirements that come into force by 2022 along with continuing to ensure that the impacts of the ongoing pandemic are clearly reported and accounted for.

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
16 March 2021

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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.

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 54 to 56 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: http://corporate.greggs.co.uk/investor-centre/corporate-governance/Company-documents. The key responsibilities of the Audit Committee are:

- ensuring that the accounting and financial policies of the Company are proper and effective;
- assisting the Board in fulfilling its oversight responsibilities by monitoring the integrity of the accounts and information published by the Company and reviewing significant financial judgements contained in them;
- advising the Board on whether it believes the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy;
- reviewing the internal financial controls and the Group's approach to risk management;
- 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 62.

The Committee normally invites the Company Chair, 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.

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Financial reporting

In 2020 the Audit Committee reviewed the 2019 annual report, interim results, preliminary results announcement and reports from the external auditor on the outcome of their reviews and audits.

During the year, and up to the date of this report, the Committee considered key accounting issues and judgements and related disclosures in the Group's accounts. The significant areas of judgement considered by the Committee in relation to the accounts for the 53 weeks ended 2 January 2021 are as follows:

Area of focus	Action taken
Impairment of assets	
Property, plant and equipment and right-of-use assets are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable. When a review for impairment is conducted the recoverable amount is estimated based on either value-in-use calculations or fair value less costs of disposal. Both value-in-use and fair value less costs of disposal calculations require management to estimate future cash flows generated by the assets and an appropriate discount rate. Consideration is also given to whether the impairment assessments made in prior years remain appropriate based on the latest expectations in respect of recoverable amount. Where it is concluded that the impairment has reduced, a reversal of the impairment is recorded. The Covid-19 crisis has meant that all shops have had periods of no, or reduced, sales during the period and the rate of recovery of sales is inherently uncertain. This is considered to be an impairment trigger and as a result all shops have been tested for impairment. As a result of the crisis and following the shutdown period a decision was made not to reopen 38 shops. All shop fittings and right-of-use assets for these shops have been fully impaired at a cost of £5.4 million. In addition, a provision of £2.5 million was made for onerous costs and dilapidations directly related to these closures which is expected to be utilised over the remaining term of these shop leases. The assumptions regarding the lease term in respect of these shops were reviewed and where required the lease liability was remeasured. For the remainder of the estate, an impairment review was carried out using the assumptions set out in the basis of preparation on pages 123 and 124. As a result of this review an impairment provision of £8.6 million has been recognised in respect of shop fittings and right-of-use assets for a further 87 shops. The sensitivities of the assumptions on this amount are also set out on page 124.	The Committee reviewed management's assessment of the impact of the Covid-19 crisis on the shop estate and concurred that it constitutes an impairment trigger and that all shops should be tested for impairment. It has reviewed the assumptions made and the resulting impairment charges and provision for onerous costs and dilapidations and has concluded that the principles and judgements applied were appropriate.

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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 were 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 2020 the Group has recognised right-of-use assets of £270.2 million (2019: £272.7 million) and lease liabilities totalling £291.7 million (2019: £275.7 million). Charges to the income statement of £51.9 million (2019: £50.8 million) in respect of depreciation and £6.5 million (2019: £6.6 million) in respect of interest were recognised.	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. The Committee considers that the judgements made are appropriate to the Group's particular circumstances.
Understanding and treatment of exceptional items	
The accounts include exceptional items in the current year. Total exceptional costs of £0.8 million were incurred in 2020 (2019: £5.9 million). This relates to the restructuring of supply chain operations and in both the current and prior year comprises mainly the one-off costs associated with the transfer of activity between sites as we consolidate our manufacturing operations into centres of excellence – a full breakdown for both years is given in Note 4 to the accounts.	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. the impact of the Covid-19 crisis on activity and financial performance in 2020; and iii. the provision of £7.0 million in 2019 for the special 'thank you' payment made to colleagues 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 2020 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 not be made in the income statement of any of the impacts of Covid-19 in 2020. The strategic report and financial review describe these in some detail and the Committee considers that disclosures throughout this annual report allow users to understand the impact on the Company's position and financial performance. In applying a consistent approach to separate disclosure of exceptional items the Committee concluded that separate disclosure be made of charges incurred in 2020 related to the supply chain investment programme but not the charges in 2019 related to the 'thank you' payment to colleagues. The supply chain investment programme is now largely complete and it is unlikely that any remaining costs associated with it will be sufficiently material to be separately classified.

Continued on the next page

Area of focus	Action taken
Accounting for defined benefit pension schemes	
The determination of the defined benefit obligation depends on the selection of certain assumptions including the discount rate, inflation rates and mortality rates. The net liability held in relation to defined benefit pension schemes at the end of 2020 was £11.9 million (2019: £0.6 million).	Pension scheme liabilities are assessed on behalf of the Company by independent actuaries. The Committee assessed the underlying assumptions and concluded that they were appropriate and also discussed the appropriateness of the assumptions with the external auditor.
Fair, balanced and understandable	
The Committee is responsible for advising the Board on whether it believes the annual report and accounts, taken as a whole, is fair, balanced and understandable.	The Committee received a report from the Head of Business Assurance who is not involved in the preparation of the annual report and accounts and who conducted an independent review of it. The following factors were considered during the course of this review: – ensuring that all the statements are consistent with one another; – verifying that figures in the narrative sections are consistent with the relevant financial detail; – identifying any duplication of information; – ensuring that the disclosure of non-underlying items is balanced; – confirming that 'bad news' is included, as well as 'good news'; and – highlighting any inappropriate use of technical language or jargon The Audit Committee considered the feedback from this report alongside its own review of the annual report and accounts when making its recommendation to the Board regarding fair, balanced and understandable.
Going concern	
The accounts continue to be prepared on a going concern basis.	Information provided by the Finance Director regarding future financial plans, risks and liquidity was presented to the Committee to enable it to determine whether the going concern basis of accounting remained appropriate. In light of the impact of social distancing and lockdown measures a particularly cautious view of trading conditions was used, along with plausible downside scenarios. The Committee reviewed and challenged the assumptions used and concluded that the Board is able to make the going concern statement on page 66 of the Directors' report.

Continued on the next page

Area of focus	Action taken
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. 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 46 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. An increase in the audit fee was agreed in order to reflect the additional work required as a result of trading conditions in 2020.

The Committee reviewed the effectiveness of the external audit in line with the Financial Reporting Council's 'Practice aid for audit committees' (December 2019). 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 of a remotely-conducted audit.

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. During 2020 the Audit Committee has conducted a full tender exercise for the appointment of a new auditor, in compliance with legislation and FRC guidance on best practice, in particular ensuring the independence of potential audit firms.

A range of firms were approached, including the 'big four' (other than KPMG) and mid-tier firms, and invited to express their interest. Interested firms were subsequently requested to complete a detailed Request For Proposal ('RFP') and the Committee shortlisted firms to be considered in a full tender process. During the tender process, which of necessity was conducted entirely remotely, each shortlisted firm was invited to meet with the Audit Committee Chair, Chief Executive, Finance Director and members of senior and operational management. Following these meetings, formal tender documents were submitted and each firm presented their proposals. The firms were judged against objective criteria that had been determined in advance of the process and shared with the firms at that point.

Whilst it appreciated the quality of all proposals submitted by the shortlisted firms, the Audit Committee considered that the submission and team from RSM UK Audit LLP (RSM) better met the predefined criteria it had set. It has therefore recommended to the Board that RSM be appointed as auditor, subject to shareholder approval, for the 2021 financial year onwards. The Board was happy to accept this recommendation and intends to propose RSM's appointment at the AGM to be held in May 2021.

Continued on the next page

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 current auditor, KPMG LLP, continues to be objective and independent of the Company. KPMG LLP did perform non-audit services during 2020 for the Group but the Audit Committee is satisfied that its objectivity was not impaired by such work.

In 2020, non-audit fees paid to KPMG LLP and related KPMG operations amounted to £15,000 (which is 7.7 per cent of the audit fee for the year) and related to the audit of turnover statements required by shop landlords.

Appointment of auditor

In accordance with Section 489 of the Companies Act 2006, a resolution for the appointment of RSM UK Audit LLP will be proposed at the forthcoming AGM.

Risk management and internal control

Internal Control

The Audit Committee receives updates from Business Assurance on the internal control environment at each meeting, both from a risk and an internal audit perspective. This regular reporting ensures timely review of any key issues. Internal audits concluding only limited assurance are considered in greater detail, allowing Committee members the opportunity to satisfy themselves that suitable actions have been taken or are in progress to comply with recommendations.

Whistle-blowing

The Company's whistle-blowing policy is available to all colleagues via the intranet, as well as via posters displayed across the business. This gives information regarding how to raise a concern in strict confidence. No significant disclosures were made during the year, though four concerns were reported, all relating to staff behaviour in shops and production sites. All events were reported directly to the Chair of the Audit Committee. All instances have been investigated and appropriate action taken to resolve the concerns satisfactorily.

Risk Management Process

The Audit Committee receives an update on risk management at each of its meetings. This is supplemented with a more detailed review of the process on an annual basis. In addition, an annual risk report presents a summary of key activities, including recording any new and emerging risks. This process allows the Committee to fulfil its accountability for overseeing the effectiveness of risk management, and confirming that arrangements are appropriate.

The risk-management process is explained in more detail on page 45.

Continued on the next page

Key areas subject to specific review by the Committee include the following:

Area of focus	Action taken
Financial reporting	All judgemental areas in the accounts are considered by the Committee, to provide challenge to the process. The impact of Covid-19 has driven a focus on the approach to impairments and other provisions, IFRS16 implications, IAS20 (accounting for government grants and disclosure of assistance), and exceptional costs in particular.
Tax compliance	An update on the Company's tax compliance was presented to the Committee, which was satisfied with the approach being taken.
Task Force on Climate-related Financial Disclosures (TCFD)	The Committee considered and confirmed the proposed approach to adopting TCFD requirements.
External auditor appointment	The Committee has approved the appointment of a new external auditor, having been involved at all stages of the tender and selection process.
Cyber risk and information security	Cyber risk and information security is considered at every Audit Committee meeting, with the Head of Business Assurance providing an update on activity. This allows the Committee to satisfy itself as to the adequacy of arrangements.
New and emerging risks	New and emerging risks are considered by members of the Risk Committee at each of its meetings. Where appropriate, these are included in the strategic risk register. Any significant matters are escalated to the Audit Committee for further discussion. Any other areas which Committee members believe should be recorded in the risk register are highlighted and discussed within the course of regular meetings.
Review of principal risks and uncertainties	The Risk Committee discussed the key risks faced by the business and used this to inform its preparation of the statement of principal risks and uncertainties. This in turn was considered by the Audit Committee after the year end, and approved for inclusion in this report, on pages 45 to 50.
Viability and going concern status	As part of the annual report review, the Committee has considered the viability statement and agreed the various scenarios modelled in support of this assessment. The Company's adoption of a going concern basis for accounts preparation was reviewed at the mid-year, as well as during the consideration of the annual report.
Internal audit function	The Committee has reviewed the work and output of the internal audit function, and concluded as to its effectiveness.

Internal audit

The work of the internal audit function is set out in more detail within the principal risks and uncertainties statement on pages 45 to 50 of this annual report. The team is led by the Head of Business Assurance, supported by 16 auditors, along with the Data Protection Analyst. The majority of the audit resource is dedicated to the retail estate, providing the Audit Committee with assurance that the required controls for safe operation in the Company's shops are in place and operating effectively.

The Business Assurance team presents an annual plan to the Audit Committee for approval, setting out how the resource will be allocated across the business. Progress against this plan is monitored at subsequent meetings throughout the year. The effectiveness of the team and its level of resource are reviewed by the Committee at least annually, including a consideration of outputs, and customer feedback received.

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
16 March 2021

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Directors' Remuneration Report

Dear Shareholders

On behalf of the Remuneration Committee (the "Committee"), I am pleased to present our Directors' remuneration report for 2020 and my first as Chair of the Remuneration Committee.

In what has been an unprecedented year for the business our focus has been to continue our transparent and open approach to remuneration at Greggs, taking into account the experience of our colleagues, shareholders and wider stakeholders during the year. We have kept our report clear, simple and easy to read, providing explanations and rationale to our decision-making throughout the report and in particular in response to the impact of Covid-19 on the business.

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. This policy was formally agreed at our AGM held on 13 May 2020; and
- Our annual remuneration report, split into sections that set out:
  - A. How our policy links to strategy and reward across the wider workforce
  - B. Remuneration Committee activity for the 53 weeks ended 2 January 2021
  - C. How Directors' remuneration will be implemented in 2021 in line with the approved policy; and
  - D. How our remuneration policy was implemented in 2020. This is an audited section of the report outlining the remuneration of the Executive and Non-Executive Directors during the 53 weeks ended 2 January 2021.

The annual remuneration report, together with this Chair's Statement, will be subject to an advisory shareholder vote at the 2021 AGM.

Remuneration policy

Our 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 this structure has served us well and its flexibility means that it will continue to work well, despite the Covid-19 related impact on the business and the shape of the business coming out of the pandemic. It is simple and consistent, with pay outcomes dependent upon performance linked to our business strategy and recovery plans as well as taking into account our wider workforce remuneration and specific Greggs culture. It ensures a significant proportion of pay is delivered in shares to provide alignment with investors and incorporates other best practice features in line with the UK Corporate Governance Code and investor guidelines.

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Actions taken in 2020 in response to Covid-19

Unfortunately, as with the wider economy and society, this year's financial results have been severely impacted by Covid-19. The Chairman's Statement and the Chief Executive's Report explain the impact of the pandemic on our business and its financial consequences, as well as the details behind the closure of our shops and the impact of local lockdowns.

This is in stark contrast to the exceptional performance of the business and stakeholder experience right up to the onset of the pandemic. 2019 delivered record-breaking results and share price performance; shareholders received a special dividend and our colleagues contribution to success was recognised with a £7 million thank-you payment in January 2020 in addition to the annual profit share they received in March. We understand how challenging the change in circumstances in this past year has been for our teams, as well as our external stakeholders, and we appreciate their flexibility and continued commitment as we have managed our way through these difficult times.

The Remuneration Committee responded quickly to react to the impact of the pandemic on the business and applied its customary approach of acting with restraint with regards to Executive remuneration during these challenging times. Management salary increases were cancelled, the Board and senior executive team took a voluntary five-month pay cut, and planned increases to annual bonus and Performance Share Plan ('PSP') award levels were postponed. We are also very mindful that our shareholders were impacted with the decision to suspend dividends in 2020.

Once the decision was taken to close all our shops in March, the vast majority of our wider workforce was furloughed. A very small number of people were retained for the day-to-day management of the business and strategic long-term projects, and for two of our supply sites which were required for our wholesale operation. The Board was very focused on ensuring that all colleagues were supported in line with Greggs core culture and values and that, in partnership with the Government Job Retention Scheme, the earnings of our lowest-paid colleagues were protected for as long as possible. Full contract hours were paid from the date at which our shops and supply sites closed due to lockdown (week commencing 23 March) until 1 July, with furlough pay being topped up to 100 per cent. As of 1 July, all colleagues on furlough were paid 80 per cent of their contract hours or 80 per cent of their average pay, whichever was higher. Across the whole period of furlough the government cap on earnings was not applied.

Sadly, ongoing lockdown constraints resulted in 820 redundancies in September – these were minimised through consultation with our colleagues and reducing hours to mitigate job losses where possible. Weekly website updates were provided to ensure colleagues were kept fully informed on business information and guidance was provided to assist them with their wellbeing and enable them to access support through both the business and the Greggs Foundation.

The business received government support in the form of the Job Retention Scheme, and debt financing to support its short-term liquidity requirements which included a CCFF loan from the Bank of England (subsequently repaid in December 2020). All payments to landlords were fulfilled and local communities and colleagues were supported through the Greggs Foundation with the provision of hardship relief grants and the offer of additional help, including food donations to help hard hit community organisations.

Salaries and fees in 2020

The Board took time to review the approach for the wider workforce, as detailed above, as context for decisions on Directors' salaries and fees in 2020. Whilst the pay awards for our wider workforce continued to be implemented in 2020, the planned annual pay award of three per cent for Board members (both Executive and Non-Executive Directors) as well as the wider management population was cancelled for 2020 with salaries and fees remaining at 2019 levels. The salary of the Finance Director, which had increased from £323,100 to £351,550 as of 1 January 2020 as part of a two-stage increase (as previously consulted upon) was reduced by three per cent to £341,003 on 1 April 2020, to align with the cancellation of the annual increase for Directors. This reduction was backdated to 1 January 2020.

Furthermore, as of 1 April 2020, all Executive Directors, the Chairman, Non-Executive Directors and the Operating Board agreed to a voluntary 20 per cent reduction in salary/fee which remained in place until 31 August 2020 when the payment of normal salary/fee resumed.

Bonus 2020

The Committee took the decision not to adjust the targets for the Company's annual bonus plan and the existing bonus metrics were retained. The planned increase in annual bonus opportunity for the Finance Director (from 90 per cent to 100 per cent of base salary) was delayed for a year until 2021. The Chief Executive's bonus opportunity for 2020 remained at 125 per cent of salary (which represented no increase over prior year).

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As a direct result of the impact of the pandemic, the financial targets in the 2019 bonus scheme were not met. The strategic targets were met in part, reflecting the tremendous efforts of management to continue to progress the strategic agenda alongside the day-to-day challenges of Covid-19. This amounted to a potential payout of 15 per cent, but following a full review and in light of the financial outcome, the Committee used its discretion to adjust the formula-driven outturn and therefore no bonus will be paid for 2020.

Performance Share Plan

Outturn for the 2018-2020 PSP award

The three-year performance period for the PSP award made in March 2018 and due to vest in March 2021 ended on 2 January 2021. The Committee made no adjustments to the targets and despite strong performance in 2018 and a record-breaking year in 2019, the impact of Covid-19 on the business in 2020 meant that for both ROCE and EPS the threshold performance level was not achieved.

The Committee conducted an in-depth consultation exercise with our largest shareholders on the potential exercise of Committee discretion to permit some of this award to vest, in the light of the exceptional performance of the business up to the onset of the pandemic and the very strong shareholder value created over the full three-year period (even taking into account the impact of the Covid-19 pandemic on the final year of the performance period). However, after considering all the feedback received, the Committee concluded that it would not use discretion to change the formula-driven outcome and so the award lapsed.

I would like to thank shareholders for their support with this consultation and for their very positive feedback with respect to the performance of the management team.

2019-2021 award

The 2019-2021 award outcome is also likely to be severely impacted by Covid-19. The Committee are not planning to make any adjustments to the targets for this plan and at this stage it is unlikely that threshold performance for EPS and ROCE will be achieved.

2020-2022 award

The 2020-2022 PSP award was originally due to be granted in May 2020 under the terms set out in last year's Directors' remuneration report. However, with the onset of the pandemic, the uncertainty regarding future strategy and performance made it very difficult to ensure that management was appropriately incentivised to deliver a robust and effective business recovery plan. Therefore, after consultation with major shareholders, a decision was made to postpone the 2020 PSP award until after the Board had concluded its three-year recovery plan.

The PSP was subsequently awarded in October 2020, with a robust set of performance measures and target ranges to complement the recovery strategy and link to the performance outlook for the business.

The financial metrics of EPS and ROCE were retained with an allocation of 25 per cent of the PSP grant attributed to each of these metrics. The EPS and ROCE target ranges were set so as to be appropriately challenging at the time the awards were granted in October 2020. The range was set at an intentionally wide level recognising the significant variance in likely performance outcomes over the performance period. The context at the time they were set was that Covid-19 rates were rising, the country was at the onset of a second wave of the pandemic and entering a second national lockdown, and there was no defined view on the timings of a vaccine rollout programme. This was a period of very significant uncertainty for the business.

The remaining 50 per cent was based equally on two strategic initiatives considered essential to help reshape the business for the post-pandemic market.The first was based on the implementation of a centralised digital app, with targets based on a significant increase in active user numbers. The second was based on growth of our new delivery model, with targets set on a sliding scale focused on sales growth.

At the time the award was granted in October 2020 the target ranges for all four metrics were considered by the Committee to be commercially sensitive and so we were not able to disclose them to shareholders at that time.

When considering the quantum of the award level, the Committee recognised some short-term weakness in the share price. Accordingly, the Committee scaled back the award levels for the Chief Executive and Finance Director reducing them from those set out in the last Directors' remuneration report (150 per cent and 110 per cent of salary respectively) to 115 per cent and 95 per cent of salary, respectively. Effectively, this delayed to 2021 the increases to PSP awards that had been agreed in the remuneration policy, as approved by shareholders at the 2020 AGM.

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In March 2021, the Committee reviewed all the targets and following the significant consultation with investors and overall feedback over the last 12 months, agreed to remain consistent in their approach of not adjusting the targets for these, or any other in-flight PSP awards. Whilst the range is wide and we are now in a period of slight increased positivity, the Committee believes this is due in part to the considerable work and commitment of the management team who have worked exceptionally hard not only to navigate the period of the last six months, but to continue to ensure we drive business growth and sustainability and to quickly reposition the busines for the future.

On vesting of the award, in light of the extraordinary circumstances, the Committee will take a further, full review of business performance and quality of results to ensure this has been maintained consistently over the performance period and make the appropriate decision with regards to the vesting of this award.

Full details of the EPS and ROCE ranges are contained in this report.The targets relating to strategic initiatives were also reviewed and the Committee determined that they continued to be pitched appropriately. These target ranges continue to remain commercially sensitive at the present time, as they relate to the details of our digital strategy and delivery model. However, we will be in a position to disclose these following the end of the performance period.

Approach for 2021

In delivering the three-year recovery plan for the business, it is vital that there continues to be a sustained focus on the strategic direction, recovery and future growth of the business. Whilst we continue to act with restraint in remuneration matters, it is important that we set incentive plans that strike the right balance between achievability and stretch, driving the right decisions for the business, supporting the wider workforce and shareholders, whilst at the same time motivating and enabling the retention and recruitment of senior talent.

Salaries and fees

With effect from 1 January 2021, the Committee agreed a salary increase of 1.7 per cent for the Chief Executive, in line with the base increase for the workforce generally. A consistent approach was taken by the Board in relation to both the Chair and Non-Executive Directors' fees.

Following full consideration of the current circumstances, the Remuneration Committee has applied the proposed 'second stage' salary increase for the Finance Director, to £380,000 effective from 1 January 2021. This increase is in line with the approach as set out in the Directors' remuneration report last year and applying this increase still leaves his salary and total pay below mid-market pay levels when compared to companies of similar size and scope to Greggs.

Annual bonus

The maximum bonus opportunity for the Chief Executive will remain at 125 per cent of salary with the Finance Director increasing from 90 per cent to 100 per cent of salary. This increase was originally due to be implemented in 2020, having been approved by shareholders as part of the new policy, but was delayed in light of the impact of the pandemic.

The Committee believes that the current measures – profit (50 per cent), sales (20 per cent) and strategic objectives (30 per cent) remain appropriate and no changes are proposed to this weighting. The strategic objectives will comprise three separate elements with ten per cent based on business efficiency/cost savings, ten per cent based on sustainability targets and ten per cent based on food waste targets.

Financial targets for these measures for the 2021 bonus will be set in line with the financial plan for the business for the year and the rolling strategic plan and will continue to be stretching. Due to the commercial sensitivity of the 2021 bonus targets they are not disclosed within this report, but will be disclosed retrospectively in next year's report.

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PSP

For the 2021 PSP, as per the remuneration policy and having consulted with shareholders in 2019, the award level for the Chief Executive will increase to 150 per cent of salary with the Finance Director award increasing to 125 per cent of salary. These increases were originally due to be implemented across 2020 and 2021, having been approved by shareholders as part of the new policy, but were delayed in light of the impact of the pandemic.

The Committee has considered the performance conditions and has determined that, with better visibility as to the Company's financial performance, the performance conditions should revert to just EPS and ROCE, with an equal weighting given to each. We have set appropriately stretching performance targets for each measure reflecting the strategic plan and business outlook over the performance period. Full details of the targets are set out later in this report, but both represent a significant increase on the 2020 PSP targets.

Shareholder engagement

Throughout 2020 we have engaged with shareholders and proxy agencies to receive their feedback on a number of policy matters including the new remuneration policy, the package for our Finance Director, the impact of Covid-19 and the response of the Committee to it, as well as exploring the vesting of the 2018 PSP award. These discussions and views have supported the Committee in shaping their thinking on remuneration policy and practice. The Committee would like to thank our shareholders and proxy agencies for their time and support through 2020. We welcome all feedback from our shareholders as their views help us inform our thinking on remuneration matters and in particular when evaluating and setting the remuneration strategy.

The Committee is committed to continue consulting with key shareholders and we hope we can rely on your ongoing support.

I hope that you will find this report transparent, clear and informative. The Committee has remained focused on ensuring that Executive remuneration is closely aligned to the delivery of Greggs business strategy whilst taking account of stakeholder experience, best practice and the impact of Covid-19 on the business.

Finally, I am grateful for the support I have received from my predecessor, Sandra Turner, the Committee and the rest of the Board as we have dealt with the significant remuneration-related challenges that faced the business this year.

I look forward to receiving your support at this year's AGM with regards to the annual report on remuneration. If you would like to contact me directly to discuss any aspect of this report then please email me at investorrelations@greggs.co.uk.

Yours faithfully

Dr. Helena Ganczakowski
Chair of the Remuneration Committee
16 March 2021

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Remuneration policy report

This section of our report is a 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 colleagues and other stakeholders.

The current Directors' remuneration policy was approved by shareholders at our AGM on 13 May 2020 and became effective for three years from that date. There are no proposed changes to this policy in 2021.

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

Executive Directors

Element	Purpose and strategy	Operation	Maximum opportunity
Base salary	To attract and retain high-calibre individuals in order to promote the long-term success of the business.	Reviewed and set annually in January. Benchmarked periodically by the Committee against the remuneration levels for executives in similar roles in companies of a comparable size. Individual performance and contribution 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 colleague pay throughout the organisation.
Benefits	To support a competitive remuneration package in the marketplace.	Benefits include provision of a company car (or cash in lieu), private medical health care, life assurance and permanent health insurance.	No maximum limit is prescribed, particularly as the cost of providing insured benefits fluctuates over time. However, the Committee monitors on an annual basis the overall cost of the benefit provision.
Pension	To support a competitive remuneration package in the marketplace 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 in 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.

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DIRECTORS' REMUNERATION REPORT CONTINUED

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 colleagues. 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.	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.

Element	Purpose and strategy	Operation	Maximum opportunity
Annual bonus (including profit share) continued		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.	
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).	150% of base salary for 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.

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DIRECTORS' REMUNERATION REPORT CONTINUED

Element	Purpose and strategy	Operation	Maximum opportunity
Performance Share Plan ('PSP') continued		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.	
Saving-Related Share Option Scheme (SAYE and SIP)	To encourage colleagues 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 colleagues.	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.

Element	Purpose and strategy	Operation	Maximum opportunity
Share retention guidelines	To further align the interests of Executive Directors to those of shareholders.	Executive Directors are required to build up a shareholding of 200% of base salary. 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

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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.

Choice of performance measures and policy discretion

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.

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; and
- 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.

Continued on the next page

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.

In line with our Remuneration Policy, all new Executive Directors will have their pension contribution aligned to the rate applying to the majority of the workforce.

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

Service contracts and policy on cessation

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

Provision	Detailed terms
Remuneration	– Salary, pension and benefits; – company car or cash allowance; – private medical health care for the Director; – permanent health insurance; – participation in annual bonus and profit share (subject to scheme rules); – participation in long-term incentive schemes or similar arrangements (subject to scheme rules); and – life assurance.
Notice period	– 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.

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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
- 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:

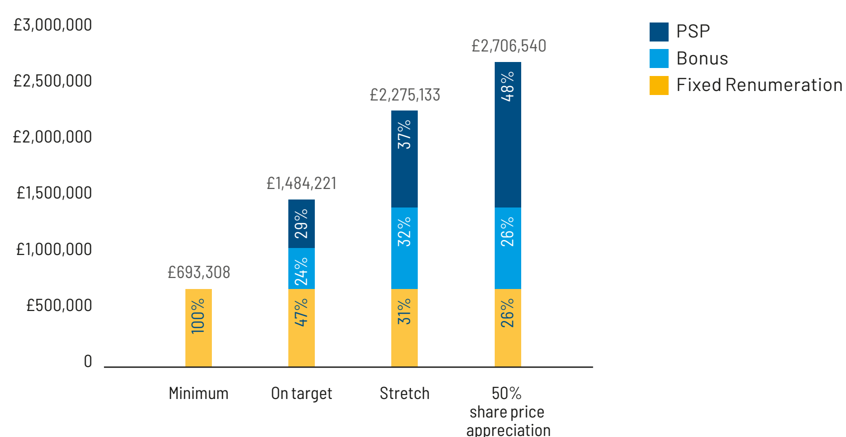
Director	Date of contract
Roger Whiteside	4 February 2013
Richard Hutton	7 April 2006

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 2021 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	£575,209	£575,209	£575,209	£575,209
– Pension	£108,139	£108,139	£108,139	£108,139
– Benefits	£9,960	£9,960	£9,960	£9,960
Bonus	–	£359,506	£719,011	£719,011
Performance Share Plan	–	£431,407	£862,814	£1,294,221
Total	£693,308	£1,484,221	£2,275,133	£2,706,540

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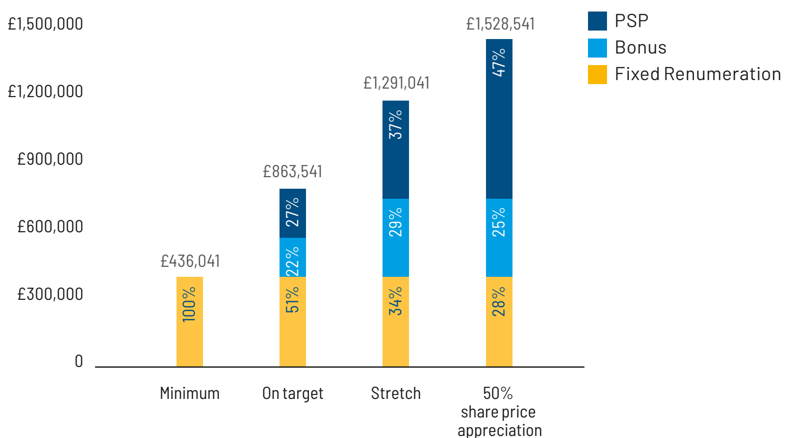
Finance Director – Richard Hutton



	Minimum	On target	Stretch	50% share price appreciation
Fixed remuneration:				
– Salary	£380,000	£380,000	£380,000	£380,000
– Pension	£45,600	£45,600	£45,600	£45,600
– Benefits	£10,441	£10,441	£10,441	£10,441
Bonus	–	£190,000	£380,000	£380,000
Performance Share Plan	–	£237,500	£475,000	£712,500
Total	£436,041	£863,541	£1,291,041	£1,528,541

Assumptions used in the charts:
Base salary levels as at 1 January 2021.
The value of taxable benefits is based on the cost of supplying those benefits (as disclosed) for the 53 weeks ended 2 January 2021

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% share price appreciation model.
Minimum remuneration – assumes no vesting is achieved under the PSP.
On target remuneration – assumes 50% vesting is achieved.

Terms of appointment of Non-Executive Directors

Non-Executive Directors are appointed subject to the Company's articles of association, retiring and seeking election at the first AGM after appointment.

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

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

Non-Executive Director	Original date of appointment
Ian Durant	5 October 2011
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.

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Annual remuneration report

A. How our remuneration links to strategy and reward across the wider workforce

Link to Strategy

Growth – remuneration at Greggs is intended to incentivise sustainable profitable growth. This is reflected in key metrics in the plans including operating profit, EPS, ROCE and cost savings

Strategic pillars – delivery against the four strategic pillars is incentivised as appropriate by strategic metrics in the annual bonus scheme – for example specific project delivery

The Greggs Pledge – our commitment to deliver these goals is supported with the inclusion of sustainability and food waste targets

Compliance with the UK Corporate Governance Code

Our report is fully compliant with the UK Corporate Governance Code and we believe that our approach to Executive remuneration fully takes into account the required 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 pay-outs are disclosed in the remuneration policy and it has been demonstrated in this statement how outcomes have been aligned with performance and strategy.

Reward across the wider workforce

The remuneration policy for the Executive Directors is designed having regard to the policy for colleagues across the Group as a whole and wider workforce remuneration and related policies. While colleagues are not formally consulted on the terms of Executive Director remuneration, the Remuneration Committee engaged with a representative group of colleagues in 2020 to explain how remuneration for Directors aligns with wider company pay policy and plans further engagement sessions in 2021.

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 share ten per cent of our profits annually with our colleagues across the business, and everyone is eligible to participate in this profit-sharing scheme after six months' service. A higher proportion of the Executive Directors' remuneration package is delivered through performance-related incentive schemes, much of which are in share-based form, which provides a good link to long-term company performance and shareholder experience. Long-term incentive schemes and bonus participation extends below Board level, with a separate share option scheme is in place for Senior Management colleagues and a bonus scheme for graded management. Both the LTIP and management bonus schemes are aligned to those of the Executive Directors' and are subject to the same performance targets and measures.

All colleagues with one-years' service or more may participate in the Share save scheme (where colleagues can save to purchase shares at a discount rate at the end of a three-year period) and in the Share Incentive Plan ('SIP')(where colleagues can purchase shares from pre-tax salary subject to HMRC limits). These schemes are generally offered annually.

B. Remuneration Committee activity for the 53 weeks ended 2 January 2021

Meetings during the year

The Remuneration Committee met four times during the year. Details of the Committee members' attendance are given on page 62.

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.

Role and responsibilities

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 whilst reviewing and taking into account wider workforce remuneration and the Company values and culture. It is the Committee's role to establish a remuneration policy that promotes both long-term shareholdings by Executive Directors and ensures alignment of policies and practices to support business strategy, promote long-term sustainable success of the business and shareholder expectations.

Continued on the next page

Summary of Committee activity during 2020

In an unprecedented year the Committee has focused significantly on the impact that Covid-19 has had on the business and the effective application of the remuneration policy throughout the year. Details with regards to some of the activities the Committee have undertaken have been outlined in the Chair's letter as well as being summarised below.

- Concluded consultation with shareholders on the new three-year remuneration policy;
- Agreed the new pension arrangements for incumbent and new Directors;
- Approved the new remuneration policy for recommendation to shareholders at the AGM in May;
- Reviewed all colleague remuneration in particular acknowledging the one off 'Thank You' payment made to all colleagues in January 2020;
- Discussed and reviewed Directors' salaries, in particular the Finance Director's salary and the increase previously discussed with shareholders;
- Reviewed the impact of the Covid-19 pandemic on colleagues and engaged with shareholders on action taken in relation to Executive Directors as outlined in this report;
- Discussed the 2020 bonus outturn;
- Reviewed the 2021 bonus metrics for the year ahead and agreed bonus potential for Finance Director in line with remuneration policy;
- Discussed and reviewed PSP vesting conditions for the 2018 PSP grant and engaged in a full and comprehensive consultation exercise with shareholders to explore proposals;
- Discussed and reviewed the targets and approval of grants for PSP for the year ahead and engaged with shareholders on timing of award and metrics;
- Approved grants under the share option scheme (to senior managers below Operating Board level);
- Approved the Company SAYE scheme;
- Reviewed Executive Directors' and senior management's shareholdings in the Company, in the context of shareholding guidelines; and
- Held a listening group with colleagues to support understanding of the work of the Remuneration Committee.

Structure and content of the remuneration report

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

The Regulations also require our auditor to report to shareholders on the audited information within this remuneration report and to state whether, in their opinion, the relevant sections have been prepared in accordance with the Act and the Regulations. The auditor's opinion is set out on pages 104 to 111 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. The Finance Director attends where required. 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 £27,870. Korn Ferry did not provide any other services to the Company during 2020.

Shareholder Dialogue

The Committee actively engages with shareholder views and these are taken into account in shaping both remuneration policy and practice. Extensive shareholder consultation was conducted in 2020.

AGM Voting Outcomes

The voting outcome from the 2020 AGM reflected both strong individual and institutional shareholder support and the results are outlined below.

	Approve the remuneration report	
	Total number of votes	% of votes cast
For	71,440,001	98.57%
Against	1,036,642	1.43%
Total votes cast (excluding votes withheld)	72,476,643	100.00%
Votes withheld	2,072,997	
Total votes cast (including votes withheld)	74,549,640	

Continued on the next page

Shareholders were asked to approve the remuneration policy at the 2020 AGM and the results are outlined below:

	Approve the remuneration report	
	Total number of votes	% of votes cast
For	66,782,219	95.71%
Against	2,990,047	4.29%
Total votes cast (excluding votes withheld)	69,772,266	100.00%
Votes withheld	4,777,374	
Total votes cast (including votes withheld)	74,549,640	

C. How our remuneration policy will be implemented in 2021 – Executive Directors

The section below summarises the implementation of our remuneration policy for 2021.

Base salary 2021

The annual base salaries for the Executive Directors were reviewed with effect from 1 January 2021; increases and current salaries are outlined below:

Director	Salary as at 1 January 2020	Salary as at 1 January 2021	% increase
Roger Whiteside (Chief Executive)	£565,594	£575,209	1.7%
Richard Hutton (Finance Director)	£341,003	£380,000	11.4%

With effect from 1 January 2021 the Committee agreed a salary increase of 1.7 per cent for the Chief Executive, in line with the base increase for the workforce generally. A consistent approach was taken by the Board in relation to both the Chair and Non-Executive Directors' fees.

Following full consideration of the current circumstances, the Remuneration Committee has applied the proposed 'second stage' salary increase for the Finance Director to £380,000, effective from 1 January 2021. This increase is in line with the approach as set out in the Directors' remuneration report last year and applying this increase still leaves his salary and total pay below mid-market pay levels when compared to companies of similar size and scope to Greggs.

Pension contribution 2021

As per our remuneration policy, contributions for the Chief Executive and Finance Director will reduce following a glide path over a five-year period commencing 1 January 2021, reducing by 3.7 per cent and two per cent of salary p.a. respectively until contributions are aligned to rate applying to majority of workforce.

The pension contribution rates for 2021 (both of which are cash in lieu) are:

Roger Whiteside	18.8%
Richard Hutton	12.0%

Annual bonus 2021

The annual bonus opportunity for 2021 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.	Outlined below.

Continued on the next page

The strategic objectives for each bonus cycle are based on measures which will provide a strong link to strategy and future value creation. For the 2021 bonus there will be three strategic objectives each relating to ten per cent of the bonus opportunity. They are:

- ten per cent based on business efficiency/cost savings;
- ten per cent based on sustainability targets; and
- ten per cent based on food waste targets.

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

Targets are normally set at the start of the year by the Committee using the outturn and performance in the previous year, as well as the business plan, to determine appropriately stretching sliding scales. Due to the significant impact of Covid-19 on business performance the Committee has postponed setting specific targets until later in the year and no later than the half year 2021. Bonus targets for the forthcoming year are considered to be commercially sensitive and so will not be disclosed at that time. Retrospective disclosure of the targets and performance against them will be made in next year's annual report on remuneration.

The Committee will review performance and any payment under the non-profit based element of the bonus may be scaled back (potentially to zero) at the discretion of the Committee, in the event that the profit performance for the year is judged to be running significantly below that required for the achievement of the long-term strategy.

PSP award 2021
PSP awards will be granted as follows:

Chief Executive	150% of base salary
Finance Director	125% of base salary

The Committee will review the prevailing share price at the time of grant and if it determines that there is short-term weakness in the share price, it may scale back the award levels from the percentages above.

Performance conditions will be based on an equal split of two different financial measures, EPS and ROCE. These measures 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 both the EPS and ROCE range has been set to ensure that the targets remain appropriate in light of our business strategy over the coming three-year period.

For the 2021 awards the target ranges will be as follows:

- The EPS performance condition will require EPS in 2023 to be between 77.2p and 105.3p; and
- The ROCE condition will require full year 2023 ROCE to be between 14.8 per cent to 19.5 per cent.

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

The EPS and ROCE targets represent a significant increase compared to the targets for the 2020 PSP awards.

A holding period is attached to vested PSP awards, 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 2021 – 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.

* EPS and ROCE are measured excluding exceptional items.

Continued on the next page

These fees are usually reviewed and set annually. The fees were increased by 1.7 per cent on 1 January 2021 in line with the base salary increase for the whole workforce.

Details of the fees being paid to Non-Executive Directors in 2021 are set out below:

Name	Position	Base fee	Additional fee	Fee
Ian Durant	Chair			£198,315
Kate Ferry	Chair of the Audit Committee	£50,850	£10,170	£61,020
Helena Ganczakowski	Chair of the Remuneration Committee	£50,850	£10,170	£61,020
Peter McPhillips	Non-Executive Director	£50,850		£50,850
Sandra Turner	Non-Executive Director & SID	£50,850	£7,628	£58,478

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

D. How our remuneration policy was implemented in 2020 (audited)

Total Executive Director remuneration payable for 2020

The following table presents the remuneration payable for 2020 (showing the equivalent figures for 2019) for the Executive Directors.

	Salary £	Pension contribution (including salary in lieu) £	Taxable benefits[4] £	Total fixed remuneration £	Annual incentives (including profit share) £	Performance Share Plan[1,2] £	Total variable remuneration	Total remuneration
Roger Whiteside								
2020	518,461[3]	116,654	9,960	645,075	–	–	–	645,075
2019	565,594	127,259	12,469	705,322	690,732	975,297	1,666,029	2,371,351
Richard Hutton								
2020	312,586[3]	42,549	10,441	365,576	–	–	–	365,576
2019	323,100	44,021	12,090	379,211	284,102	460,237	744,339	1,123,550

Notes:

1 The value of the PSP award for 2020, due to vest on 19 March 2021, is based on the forecast level of vesting (0%)

2 For the 2019 PSP award the value last year was based on the average share price over the three-months prior to the year end. The value has now been updated for the actual price on vesting on 19 May 2020, together with the updated total remuneration figure

3 For the period of 1 April 2020 to 31 August 2020 the salaries of the Executive Directors were voluntarily reduced by 20%

4 Taxable benefits relate to cash-in-lieu of a company car and private medical health care

Fees for Non-Executive Directors

The fees for Non-Executive Directors were as follows:

	Per annum as of 13 May 2020	Per annum as of 1 January 2020	Actual paid 2020	Actual paid 2019
Ian Durant	£195,000	£195,000	£178,750	£183,925
Helena Ganczakowski*	£60,000	£45,979	£51,575	£47,990
Peter McPhillips	£50,000	£45,979	£45,833	£47,990
Sandra Turner**	£57,500	£60,000	£53,565	£56,408
Kate Ferry***	£60,000	£60,000	£55,000	£34,401

* Helena Ganczakowski was appointed Remuneration Committee Chair as of 13 May 2020.
** Sandra Turner stood down as Chair of Remuneration Committee as of 13 May 2020.
** Kate Ferry joined the Board on 1 June 2019

For the period 1 April 2020 to 31 August 2020 the fees of the Chair and Non-Executive Directors were voluntarily reduced by 20 per cent.

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Annual bonus 2020

As a direct result of the impact of the pandemic, the financial targets in the 2019 bonus scheme were not met. The strategic targets were met in part, reflecting the tremendous efforts of management to continue to progress the strategic agenda alongside the day-to-day challenges of Covid-19. Following a full review and in light of the financial outcome the Committee decided to use its discretion to determine that the annual bonus pay-out for 2020 would be zero, overriding the formula driven pay-outs that would otherwise have arisen under the 30 per cent strategic element.

The table below outlines the bonus performance conditions in respect of 2020 scheme.

Measure	Strategic objective	Weighting	Entry	Target	Stretch	Actual	%
Profit (£)	To deliver target profit before tax (excluding exceptional items and property profits)	50%	£114.7m	£119.7m	£123.7m	(£13.7m)	0%
Sales (%)	To deliver target increase in company-managed like-for-like sales	20%	3.3%	4.4%	5.4%	(36.2)%	0%
Strategic (£)	Cost savings	10%	£6.0m	£10.0m	–	Not possible to measure reliably in current year	0%
Strategic	Process and system change delivery*	10%				Achieved	10%
Strategic	Delivery*	5%				Achieved	5%
Strategic	Sustainability*	5%				Not achieved	0%
Total weighting based on balanced scorecard		100%				15%	

* Further details on the strategic targets are set out below:

Process and system change delivery (10%)

Metric	Target 5%	7.5%	Maximum 10%
SAP roll out to bakery sites – Implementation of critical IT systems with successful operation and acceptance into service.	Implementation and successful cutover of first 'combined' (manufacturing & logistics) site	Implementation and successful cutover of one further site	Implementation and successful cutover of one further site

Delivery (5%)

Metric	Threshold 1%		Maximum 5%
Launch full delivery operating model and roll out across estate	Launch delivery into 50 shops	sliding scale to...	Launch delivery into 200 shops

Sustainability (5%)

Metric	Threshold 1%		Maximum 5%
Distribute an increased % of unsold food ahead of the 2019 end of year actual (19.5%)	10% increase in amount of unsold food re-distributed year-on-year	sliding scale to...	50% increase in amount of unsold food re-distributed year-on-year

Bonus achieved for 2020

	As % of maximum
Roger Whiteside	0%
Richard Hutton	0%

Details of the shares awarded in 2020 for the 2019 bonus year are outlined below. These were awarded on 25 March 2020 and will be released on 25 March 2022:

Director	Number of shares awarded
Roger Whiteside	11,251
Richard Hutton	4,627

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Performance Share Plan award for performance over 2018 – 2020

The PSP award granted in 2018 measured EPS performance by reference to the three financial years to 2 January 2021 and average annual ROCE over the three-year performance period 2018 to 2020. 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)	(37.3%)	0%
ROCE (50%)	Average annual ROCE over the three-year performance period.	25% (12.5% vesting)	29% (100% vesting)	19.5%	0%
				Total vesting	0%

Performance Share Plan awards granted in 2020

Performance Share Plan Awards granted during 2020 are as follows:

Executive	Type of award	Basis of award granted	Share price at date of grant (9 October 2020)	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	£14.07	46,228	£650,428	25%	Three financial years to 31 December 2022
Richard Hutton	Nil cost options	95% of salary	£14.07	23,024	£323,947	25%	Three financial years to 31 December 2022

For the 2020 grant there will be four independent performance targets applying to an award.

Each performance target will account for 25 per cent of the award:

- 25 per cent is subject to a performance target based on the Company's earnings per share (pence per share) in 2022 being between 18.3p and 69.3p;
- 25 per cent is subject to a performance target based on the Company's return on capital employed in 2022 to be in the range 3.4 per cent to 12.5 per cent;
- 25 per cent will be based on the implementation of a centralised Digital App with metrics on a sliding scale focused on increasing active user numbers; and
- 25 per cent will be based on the implementation of a delivery model that increases sales growth for the business linked to the Strategic Business Plan.

These final two target ranges remain commercially sensitive at the present time, as they relate to details of our digital strategy and delivery. However, we will be in a position to disclose these following the end of the performance period.

For each metric, 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.

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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 29 December 2019 number	Granted number	Exercised number	Lapsed number	At 2 January 2021 number	Exercise price	Date of grant	Market price of each share at date of grant	Date from which exercisable	Expiry date	Scheme
Roger Whiteside	57,303	–	–	–	57,303[3]	£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
	–	46,228	–	–	46,228	£nil	Oct 20	£14.070	Oct 23	Oct 30	PSP
	169	–	169[1]	–	–	£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
	–	88	–	–	88	£14.24	Apr 20		Jun 23	Nov 23	SAYE
	146,023	46,316	169	–	192,170						
Richard Hutton	27,041	–	–	–	27,041[3]	£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
	–	23,024	–	–	23,024	£nil	Oct 20	£14.070	Oct 23	Oct 30	PSP
	169		169[2]	–	–	£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
	–	88	–	–	88	£14.24	Apr 20		Jun 23	Nov 23	SAYE
	69,106	23,112	169	–	92,049						

Notes:

1 The market value on the date of exercise was £13.17 and the resultant gain on exercise was £862.

2 The market value on the date of exercise was £18.39 and the resultant gain on exercise was £1,744.

3 These options have vested but have not yet been exercised. All other options have not yet vested.

Options granted under the all-colleague SAYE scheme are not subject to performance conditions. All PSP options are subject to performance conditions as detailed elsewhere in this report.

The mid-market price of ordinary shares in the Company as at 2 January 2021 was £17.90. The highest and lowest mid-market prices of ordinary shares during the financial year were £24.42 and £11.19, 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 29 December 2019 £	Accrued annual pension entitlement as at 2 January 2021 £	Increase in accrued pension entitlement for the year £	Increase in accrued pension entitlement for the year net of inflation of 1.291% £	Transfer value of increase in accrued pension entitlement for the year £
Richard Hutton	3/6/68	1/1/98	18,522	18,522	–	–	–

Notes:

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

2 The inflation rate of 1.291 per cent shown in the table above is that published by the Secretary of State for Work and Pensions in accordance with Schedule 3 of the Pensions Schemes Act 1993.

	Cash equivalent transfer value as at 28 December 2019 £	Cash equivalent transfer value as at 2 January 2021 £	Increase in the cash equivalent transfer value since 29 December 2019 £
Richard Hutton	371,422	392,930	–

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.

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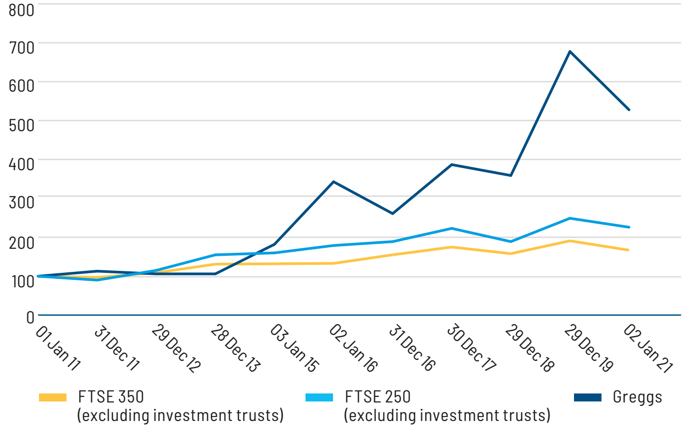
Chief Executive pay compared to performance

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.

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total remuneration	£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	£645,075
Bonus (% of max potential)	38.6%	18.0%	20.0%	100.0%	93.7%	86.7%	64.3%	59.2%	97.7%	0.0%
PSP/options (% max potential)	0%	78.3%	n/a	n/a	100%	100%	100%	80.2%	100%	0.0%

Directors' shareholding and share interests (Audited)

Details of the shareholdings of each Executive Director as at 2 January 2021 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 2 January 2021	Beneficially owned at 28 December 2019	Outstanding PSP awards	Outstanding option awards	% shareholding achieved at 2 January 2021
Roger Whiteside	161,846	150,306	191,874	296	512%
Richard Hutton	94,014	89,218	91,753	296	521%
Ian Durant	11,700	11,700	–	–	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	562	n/a	–	–	n/a

There have been no changes since 2 January 2021 in the Directors' interests noted above. Further details of outstanding share awards are given on page 98.

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.

Continued on the next page

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 2020 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 2020 this fee was £19,167.

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.

	2020 £m	2019 £m	% increase / (decrease)
All colleague costs	414.8	412.4	0.6%
Dividends	0.0	72.1	(100%)
Retained profit	(13.0)	91.8	(114.1%)
Corporation tax paid	10.7	20.3	(47.3%)

Percentage change in remuneration of all Directors

The table below sets out the percentage change in remuneration for all Directors (Executive and Non-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 2019 to 2020
All Directors	
– salary	(5.0%)
– benefits	(16.9%)
– performance pay	(100.0%)
Average per colleague	
– salary	0.0%
– benefits*	3.2%
– performance pay	(100%)

* The average colleague benefits figure is based on tax year 2019/20 for 2020 and tax year 2018/19 for 2019.

Continued on the next page

Chief Executive pay ratio reporting

Outlined below is the ratio of the Chief Executive's single figure of total remuneration for 2020 expressed as a multiple of total remuneration for UK colleagues.

The three ratios referenced below are calculated by reference to the colleagues at the 25th, 50th and 75th percentile. We additionally disclose the total pay and benefits and base salary of the colleagues 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
2020	Option B	30:1	30:1	28:1
2019	Option B	132:1	126:1	108:1

Full year pay data for the 2020 financial year has been used to calculate the ratios.

Disclosure of colleague data used to calculate the ratios	25th percentile	Median	75th percentile
Total pay and benefits	£21,340	£21,553	£22,647
Base salary	£20,539	£20,738	£21,789

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; and
- As the hours our colleague 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 legislation for calculating the Chief Executive pay ratio, we are using 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 colleagues and the impact that Covid-19 has had on Executive Remuneration.

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. As previously outlined in both our Chair's statement and this report, we worked hard to support our colleagues in 2020. At the start of this unprecedented year we made a special payment to all colleagues below Board level in recognition of their 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 received in March 2020 and included in the figures above. As well as this, full contract hours were paid from the date at which our shops and supply sites closed due to lockdown (week commencing 23 March) until 1 July, with furlough pay being topped up to 100 per cent. As of 1 July, all colleagues on furlough were paid 80 per cent of their contract hours or 80 per cent of their average pay, whichever was higher. Across the whole period of furlough the government cap on earnings was not applied.

Due to the impact of Covid-19 the base pay award for our Chief Executive was cancelled in 2020 and, as well as this, for the five-month period between April and August 2020 he voluntarily took a 20 per cent reduction in his pay. Additionally the variable pay of the Chief Executive has been impacted in 2020.

This report was approved by the Board on 16 March 2021.

Signed on behalf of the Board

Dr. Helena Ganczakowski
Chair of the Remuneration Committee
16 March 2021

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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 accounting standards in conformity with the requirements of the Companies Act 2006 and applicable law and have elected to prepare the Parent Company accounts on the same basis. In addition, the Group accounts are required under the UK Disclosure Guidance and Transparency Rules to be prepared in accordance with International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union ('IFRSs as adopted by the EU')

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 the Group's 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 international accounting standards in conformity with the requirements of the Companies Act 2006 and, as regards the Group accounts, International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union ('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.

Continued on the next page

Responsibility statement of the Directors in respect of the annual report and accounts

We confirm that to the best of our knowledge:

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

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

Roger Whiteside
Chief Executive
16 March 2021

Richard Hutton
Finance Director

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INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF GREGGS PLC

1. Our opinion is unmodified

We have audited the accounts of Greggs plc ('the Company') for the 53 week period ended 2 January 2021 which comprise the consolidated income statement, consolidated statement of comprehensive income, balance sheets, statements of changes in equity, statements of cashflows, and the related notes, including the accounting policies.

In our opinion:

- the accounts give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 2 January 2021 and of the Group's loss for the period then ended;
- the Group accounts have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the Parent Company accounts have been properly prepared in accordance with international accounting standards in conformity with the requirements of, 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 to the extent applicable.

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 37 financial years ended 2 January 2021. 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 (2019: £5.0m)	
Coverage	100% (2019:100%) of Group loss (2019: profit) before tax	
Key audit matters		**vs 2019**
Recurring risks	Valuation of defined benefit pension obligation	◀▶
Event driven	**New:** Going Concern	▲
	New: Recoverability of company-managed shop Property, plant and equipment and right-of-use assets	▲

2. Key audit matters: 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 decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the accounts as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Continued on the next page

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

	The risk	Our response
Going concern **(Group and Parent Company)** Refer to page 75 (Audit Committee Report), and page 122 (basis of preparation).	**Disclosure quality** The accounts explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Group and Parent Company. That judgement is based on an evaluation of the inherent risks to the Group's and Company's business model and how those risks might affect the Group's and Company's financial resources or ability to continue operations over a period of at least a year from the date of approval of the accounts. The risks most likely to adversely affect the Group's and Company's available financial resources and metrics relevant to debt covenants over this period were: – those associated with Covid-19 including the potential for government-imposed shop closures (in addition to current lockdown measures) or short-term changes to consumer behaviour as a result of the pandemic; and – the impact of a brand-damaging food scare on customer demand. There are also less predictable but realistic second-order impacts, such as the impact of Brexit and potential changes to regulatory requirements or disruption at borders, which could result in the reduction of available financial resources. The risk for our audit was whether or not those risks were such that they amounted to a material uncertainty that may have cast significant doubt about the ability to continue as a going concern. Had they been such, then that fact would have been required to have been disclosed.	We considered whether these risks could plausibly affect the liquidity or covenant compliance in the going concern period by assessing the Directors' sensitivities over the level of available financial resources and covenant thresholds indicated by the Group's financial forecasts taking account of severe, but plausible, adverse effects that could arise from these risks individually and collectively. Our procedures also included: – **Funding assessment:** Considering the availability and sufficiency of the financing arrangements in place at the Group, including the headroom on financial covenants in place on the Group's new revolving credit facility; – **Our sector experience:** The Directors performed an initial sensitivity analysis of the level of financial resources. We compared the Directors' assumptions of plausible (but not unrealistic) adverse effects that could arise from these risks individually and collectively to our knowledge of the entity and the sector in which it operates. As a result of this comparison we requested that the Directors applied the severe, but plausible, risk sensitivities collectively; – **Historical comparisons:** Assessing historical forecasting accuracy, by comparing forecast results to those actually achieved by the Group and challenging the consistency of sales assumptions with the Group's performance during previous Covid-19 lockdowns; – **Benchmarking assumptions:** Assessing the key assumptions used in the cash flow forecast including comparing the estimated rate of recovery of sales to pre-Covid-19 levels to third-party analysis; – **Comparing assumptions:** Considering whether the forecasts and assumptions used by the Directors are consistent with other forecasts used by the Group (including those used to assess Recoverability of Property, plant and equipment and right-of-use assets); and – **Assessing transparency:** Considering whether the going concern disclosure in the basis of preparation of the accounts gives a full and accurate description of the Directors' assessment of going concern, including the identified risks, and corresponding assumptions. **Our results:** We found the going concern disclosure without any material uncertainty to be acceptable (2019: acceptable).

Continued on the next page

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

	The risk	Our response
Recoverability of Company-managed Shop Property, plant and equipment and right-of-use assets **(Group and Parent Company)** (Impairment charge for shop property, plant and equipment and right-of-use assets: £8.7 million (2019: £0.8 million)) Refer to page 73 (Audit Committee Report), pages 123 to 124 (accounting policy) and pages 146 to 149 (financial disclosures).	**Forecast-based assessment** The Group and Parent Company have significant Shop Property, plant and equipment and right-of-use assets balances. As a result of Covid-19 the Group made the decision to close a small number of shops. For company-managed shops which will continue to trade the impact of Covid-19 on the Group's business represents an impairment trigger meaning that the recoverable amounts of these balances needs to be estimated. The estimated recoverable amount is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows. In particular, as individual shops represent Cash Generating Units (CGUs), judgement is needed in estimating the rate of recovery of sales at an individual shop level and determining the period over which to forecast cash flows. The effect of these matters is that, as part of our risk assessment, we determined that the recoverable amount of company-managed Shop Property, plant and equipment and right-of-use assets 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 (page 124) disclose the sensitivity estimated by the Group.	Our procedures included: – **Methodology implementation:** Assessing the calculation methodology to ensure that it operates in line with the requirements of the accounting standards including the period of forecast cashflows considered when determining recoverable amount; – **Sensitivity analysis:** Performing our own sensitivity analysis over the key assumptions used by the Group and identifying those that have the greatest impact on the impairment assessment; – **Benchmarking assumptions:** Assessing the assumptions applied to individuals shops for the return to pre-Covid-19 trading levels and the timeframe of this recovery with reference to market conditions and third-party analysis; – **Historical comparisons:** Comparing the assumed rate of recovery of trade with the performance at an individual shop level during the period and post year end, including trading during the second and third national lockdowns in England and the additional measures applied in Scotland and Wales; and – **Assessing transparency:** Assessing whether the Group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflected the risks inherent in the valuation of Shop Property, plant and equipment and right-of-use assets. We performed the tests above rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described. **Our results:** We found the Group and Parent Company company-managed Shop Property, plant and equipment and right-of-use asset balances and the related impairment charges to be acceptable (2019: acceptable).

Continued on the next page

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF GREGGS PLC

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

	The risk	Our response
Valuation of defined benefit pension obligation **(Group and Parent Company)** (£143.4 million; 2019: £127.6 million) Refer to page 75 (Audit Committee Report), pages 125 and 130 (accounting policy) and pages 155 to 158 (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. We performed the tests above rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described. **Our results:** We found the valuation of the pension obligation to be acceptable (2019 result: acceptable).

We continue to perform procedures over Valuation of lease liabilities however, following the year of transition to the new leasing accounting standard there is reduced estimation uncertainty on an ongoing basis, we have not assessed this as amongst the most significant risks in our current year audit and, therefore, they are not separately identified in our report this year. In the prior year we reported a key audit matter in respect of the impact of uncertainties due to the UK exiting the European Union. Following the trade agreement between the UK and the EU, and the end of the EU-exit implementation period, the nature of these uncertainties has changed. We continue to perform procedures over material assumptions in forward-looking assessments such as going concern and impairment tests however we no longer consider the effect of the UK's departure from the EU to be a separate key audit matter.

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

Materiality for the group accounts and the Parent Company accounts as a whole was set at £5.0m (2019: £5.0m). We consider this the level which could reasonably be expected to influence the economic decisions of users taken on the basis of the accounts. In determining both group and parent company materiality we had regard to Revenue, Total Assets, Loss before tax for the period and average Profit before tax over the previous three years.

This represents a change from previous years where we have set our materiality for the group accounts and parent company accounts as a whole using group profit before tax (excluding exceptional items) and parent company profit before tax (excluding exceptional items) respectively as a benchmark. In the current period, loss before tax does not act as a useful benchmark for determining the level at which misstatements would influence the decisions of the users of the accounts because, due to the unprecedented impact of COVID-19 pandemic on the Group's and company's results, the result for the period is not representative of the ongoing size of the business. We have therefore used judgement to determine appropriate materiality levels with reference to Revenue and Total Assets (applying a maximum materiality level of 1% of each).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower-threshold performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the accounts as a whole.

Performance materiality for the Group and Parent Company was set at 75% (2019: 75%) of materiality for the accounts as a whole, which equates to £3.75m (2019: £3.75m) for both the Group and the Parent Company. We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.25m (2019: £0.25m), 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% (2019: 100%) of total Group revenue, Group loss before tax and total Group assets. The audit was performed using the materiality and performance materiality levels set out above.

4. Going concern

The Directors have prepared the accounts on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and as they have concluded that the Group's and the Company'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').

An explanation of how we evaluated management's assessment of going concern is set out in the related key audit matter in section 2 of this report.

Our conclusions based on this work:

- we consider that the Directors' use of the going concern basis of accounting in the preparation of the accounts is appropriate;
- we have not identified, and concur with the Directors' assessment that there is no material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Company's ability to continue as a going concern for the going concern period;
- we have nothing material to add or draw attention to in relation to the Directors' statement on page 122 in the accounts on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for the going concern period; and
- the related statement under the Listing Rules set out on page 66 is materially consistent with the accounts and our audit knowledge.

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 above conclusions are not a guarantee that the Group or the Company will continue in operation.

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5. Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ('fraud risks') we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of Directors, the Audit Committee, internal audit and Group Company Secretary and General Counsel and inspection of policy documentation as to the Group's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group's channel for 'whistleblowing', as well as whether they have knowledge of any actual, suspected or alleged fraud;
- Reading Board, Audit Committee, Investment Board and Remuneration Committee minutes;.
- Reading analysts' reports published over the course of the period; and
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account the financial performance of the Group and our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, in particular the risk that Group management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as impairment and pension assumptions. On this audit we do not believe there is a fraud risk related to revenue recognition because revenue recognition is non-complex and correlates closely to cash receipts. We did not identify any additional fraud risks.

We performed procedures including:

- Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted to unusual accounts, unusual entries to cash and period-end entries in relation to the job retention scheme; and
- Assessing significant accounting estimates for bias.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

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 from inspection of the Group's legal correspondence and discussed with the Directors and other management the policies and procedures regarding compliance with laws and regulations.

As the Group is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

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 pension legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items. 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 licence to operate. We identified the following areas as those most likely to have such an effect: Food Safety, Health and Safety, Employment Law and Data Protection regulations 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. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

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 is from the events and transactions reflected in the accounts, the less likely the inherently limited procedures required by auditing standards would identify it.

Continued on the next page

5. Fraud and breaches of laws and regulations – ability to detect continued

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

6. 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 emerging and principal risks and longer-term viability

We are required to perform procedures to identify whether there is a material inconsistency between the Directors' disclosures in respect of emerging and principal risks and the viability statement, and the accounts and our audit knowledge.

Based on those procedures, we have nothing material to add or draw attention to in relation to:

- the Directors' confirmation within the Viability statement (page 46) that they have carried out a robust assessment of the emerging and 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 how emerging risks are identified, 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.

We are also required to review the Viability statement, set out on page 46 under the Listing Rules. Based on the above procedures, we have concluded that the above disclosures are materially consistent with the accounts and our audit knowledge.

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 perform procedures to identify whether there is a material inconsistency between the Directors' corporate governance disclosures and the accounts and our audit knowledge.

Based on those procedures, we have concluded that each of the following is materially consistent with the accounts and our audit knowledge:

- 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;
- the section of the annual report describing the work of the Audit Committee, including the significant issues that the audit committee considered in relation to the accounts, and how these issues were addressed; and
- the section of the annual report that describes the review of the effectiveness of the Group's risk management and internal control systems.

Continued on the next page

We are required to review the part of the Governance Report relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review. We have nothing to report in this respect.

7. 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.

8. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on pages 102 and 103, 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 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 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.

9. 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

16 March 2021

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CONSOLIDATED INCOME STATEMENT
FOR THE 53 WEEKS ENDED 2 JANUARY 2021 (2019: 52 WEEKS ENDED 28 DECEMBER 2019)

	Note	2020 £m	2019 £m
Revenue	1	**811.3**	1,167.9
Cost of sales		**(300.4)**	(418.1)
Cost of sales excluding exceptional items		**(299.6)**	(412.2)
Exceptional items	4	**(0.8)**	(5.9)
Gross profit		**510.9**	755.7
Distribution and selling costs		**(465.8)**	(572.8)
Administrative expenses		**(52.1)**	(62.2)
Operating (loss) / profit		**(7.0)**	114.8
Finance expense	6	**(6.7)**	(6.5)
(Loss) / profit before tax	3-6	**(13.7)**	108.3
Income tax	8	**0.7**	(21.3)
(Loss) / profit for the financial year attributable to equity holders of the Parent		**(13.0)**	87.0
Basic (loss) / earnings per share	9	**(12.9p)**	86.2p
Diluted (loss) / earnings per share	9	**(12.9p)**	85.0p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE 53 WEEKS ENDED 2 JANUARY 2021 (2019: 52 WEEKS ENDED 28 DECEMBER 2019)

	Note	2020 £m	2019 £m
(Loss) / profit for the financial year		**(13.0)**	87.0
Other comprehensive income			
Items that will not be recycled to profit and loss:			
Remeasurements on defined benefit pension plans	21	**(11.2)**	3.0
Tax on remeasurements on defined benefit pension plans	8	**2.1**	(0.5)
Other comprehensive income for the financial year, net of income tax		**(9.1)**	2.5
Total comprehensive income for the financial year		**(22.1)**	89.5

Continued on the next page

BALANCE SHEETS
AT 2 JANUARY 2021 (2019: 28 DECEMBER 2019)

	Note	Group 2020 £m	Group 2019 Restated £m	Parent Company 2020 £m	Parent Company 2019 Restated £m
ASSETS					
Non-current assets					
Intangible assets	10	**15.6**	16.8	**15.6**	16.8
Property, plant and equipment	12	**345.3**	353.7	**345.9**	354.3
Right-of-use assets	11	**270.1**	272.7	**270.1**	272.7
Investments	13	**–**	–	**5.0**	5.0
		631.0	643.2	**636.6**	648.8
Current assets					
Inventories	15	**22.5**	23.9	**22.5**	23.9
Trade and other receivables	16	**39.4**	27.1	**39.4**	27.1
Cash and cash equivalents	17	**36.8**	91.3	**36.8**	91.3
		98.7	142.3	**98.7**	142.3
Total assets		**729.7**	785.5	**735.3**	791.1
LIABILITIES					
Current liabilities					
Trade and other payables	18	**(91.1)**	(142.3)	**(98.8)**	(150.0)
Current tax liability	19	**–**	(11.8)	**–**	(11.8)
Lease liabilities	11	**(48.6)**	(48.8)	**(48.6)**	(48.8)
Provisions	22	**(4.4)**	(5.8)	**(4.4)**	(5.8)
		(144.1)	(208.7)	**(151.8)**	(216.4)
Non-current liabilities					
Other payables	20	**(3.7)**	(4.2)	**(3.7)**	(4.2)
Defined benefit pension liability	21	**(11.9)**	(0.6)	**(11.9)**	(0.6)
Lease liabilities	11	**(243.1)**	(226.9)	**(243.1)**	(226.9)
Deferred tax liability	14	**(2.3)**	(2.4)	**(1.8)**	(2.0)
Long-term provisions	22	**(3.0)**	(1.6)	**(3.0)**	(1.6)
		(264.0)	(235.7)	**(263.5)**	(235.3)
Total liabilities		**(408.1)**	(444.4)	**(415.3)**	(451.7)
Net assets		**321.6**	341.1	**320.0**	339.4
EQUITY					
Capital and reserves					
Issued capital	23	**2.0**	2.0	**2.0**	2.0
Share premium account		**15.7**	13.5	**15.7**	13.5
Capital redemption reserve	23	**0.4**	0.4	**0.4**	0.4
Retained earnings		**303.5**	325.2	**301.9**	323.5
Total equity attributable to equity holders of the Parent		**321.6**	341.1	**320.0**	339.4

Of the Group loss for the year £12.9 million (2019: £87.0 million profit) is dealt with in the books of the Parent Company.

The accounts on pages 112 to 166 were approved by the Board of Directors on 16 March 2021 and were signed on its behalf by:

Roger Whiteside
Richard Hutton

Company Registered Number 502851

Continued on the next page

STATEMENTS OF CHANGES IN EQUITY
FOR THE 53 WEEKS ENDED 2 JANUARY 2021 (2019: 52 WEEKS ENDED 28 DECEMBER 2019)

Group
52 weeks ended 28 December 2019 (Restated)

		Attributable to equity holders of the Company				
	Note	Issued capital £m	Share premium £m	Capital redemption reserve £m	Retained earnings £m	Total £m
Balance at 30 December 2018 (as previously reported)		2.0	13.5	0.4	313.2	329.1
Impact of change in accounting policy *		–	–	–	(5.7)	(5.7)
Restated balance at 30 December 2018		2.0	13.5	0.4	307.5	323.4
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)
Restated balance at 28 December 2019		2.0	13.5	0.4	325.2	341.1

* Details of the change in accounting policy and consequent restatement are given in the Basis of preparation on page 121.

Continued on the next page

STATEMENTS OF CHANGES IN EQUITY CONTINUED
FOR THE 53 WEEKS ENDED 2 JANUARY 2021 (2019: 52 WEEKS ENDED 28 DECEMBER 2019)

Group
53 weeks ended 2 January 2021

	Note	Attributable to equity holders of the Company				
		Issued capital £m	Share premium £m	Capital redemption reserve £m	Retained earnings £m	Total £m
Balance at 29 December 2019 (restated)		**2.0**	**13.5**	**0.4**	**325.2**	**341.1**
Total comprehensive income for the year						
Loss for the financial year		**–**	**–**	**–**	**(13.0)**	**(13.0)**
Other comprehensive income		**–**	**–**	**–**	**(9.1)**	**(9.1)**
Total comprehensive income for the year		**–**	**–**	**–**	**(22.1)**	**(22.1)**
Transactions with owners, recorded directly in equity						
Issue of ordinary shares		**–**	**2.2**	**–**	**–**	**2.2**
Sale of own shares		**–**	**–**	**–**	**1.5**	**1.5**
Purchase of own shares		**–**	**–**	**–**	**(0.5)**	**(0.5)**
Share-based payment transactions	21	**–**	**–**	**–**	**0.9**	**0.9**
Dividends to equity holders		**–**	**–**	**–**	**–**	**–**
Tax items taken directly to reserves	8	**–**	**–**	**–**	**(1.5)**	**(1.5)**
Total transactions with owners		**–**	**2.2**	**–**	**0.4**	**2.6**
Balance at 2 January 2021		**2.0**	**15.7**	**0.4**	**303.5**	**321.6**

Continued on the next page

STATEMENTS OF CHANGES IN EQUITY CONTINUED
FOR THE 53 WEEKS ENDED 2 JANUARY 2021 (2019: 52 WEEKS ENDED 28 DECEMBER 2019)

Parent Company
52 weeks ended 28 December 2019 (Restated)

		Attributable to equity holders of the Company				
	Note	Issued capital £m	Share premium £m	Capital redemption reserve £m	Retained earnings £m	Total £m
Balance at 30 December 2018 (as previously reported)		2.0	13.5	0.4	311.5	327.4
Impact of change in accounting policy *		–	–	–	(5.7)	(5.7)
Restated balance at 30 December 2018		2.0	13.5	0.4	305.8	321.7
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)
Restated balance at 28 December 2019		2.0	13.5	0.4	323.5	339.4

* Details of the change in accounting policy and consequent restatement are given in the Basis of preparation on page 121.

Continued on the next page

STATEMENTS OF CHANGES IN EQUITY CONTINUED
FOR THE 53 WEEKS ENDED 2 JANUARY 2021 (2019: 52 WEEKS ENDED 28 DECEMBER 2019)

Parent Company

53 weeks ended 2 January 2021

	Note	Attributable to equity holders of the Company				
		Issued capital £m	Share premium £m	Capital redemption reserve £m	Retained earnings £m	Total £m
Balance at 29 December 2019 (restated)		2.0	13.5	0.4	323.5	339.4
Total comprehensive income for the year						
Loss for the financial year	7	–	–	–	(12.9)	(12.9)
Other comprehensive income		–	–	–	(9.1)	(9.1)
Total comprehensive income for the year		–	–	–	(22.0)	(22.0)
Transactions with owners, recorded directly in equity						
Issue of ordinary shares		–	2.3	–	–	2.3
Sale of own shares		–	–	–	1.5	1.5
Purchase of own shares		–	–	–	(0.5)	(0.5)
Share-based payment transactions	21	–	–	–	0.9	0.9
Dividends to equity holders		–	–	–	–	–
Tax items taken directly to reserves	8	–	–	–	(1.5)	(1.5)
Total transactions with owners		–	2.3	–	0.4	2.7
Balance at 2 January 2021		2.0	15.8	0.4	301.9	320.1

Continued on the next page

STATEMENTS OF CASHFLOWS
FOR THE 53 WEEKS ENDED 2 JANUARY 2021 (2019: 52 WEEKS ENDED 28 DECEMBER 2019)

	Note	Group 2020 £m	Group 2019 £m	Parent Company 2020 £m	Parent Company 2019 £m
Operating activities					
Cash generated from operations (see page 119)		**61.6**	246.0	**61.6**	246.0
Income tax paid		**(10.7)**	(20.3)	**(10.7)**	(20.3)
Interest paid on lease liabilities		**(6.5)**	(6.6)	**(6.5)**	(6.6)
Interest paid on borrowings		**(0.8)**	–	**(0.8)**	–
Net cash inflow from operating activities		**43.6**	219.1	**43.6**	219.1
Investing activities					
Acquisition of property, plant and equipment		**(58.8)**	(85.4)	**(58.8)**	(85.4)
Acquisition of intangible assets		**(2.8)**	(3.7)	**(2.8)**	(3.7)
Proceeds from sale of property, plant and equipment		**1.8**	1.4	**1.8**	1.4
Interest received	6	**0.6**	0.3	**0.6**	0.3
Net cash outflow from investing activities		**(59.2)**	(87.4)	**(59.2)**	(87.4)
Financing activities					
Proceeds from issue of share capital		**2.2**	–	**2.2**	–
Sale of own shares		**1.5**	4.9	**1.5**	4.9
Purchase of own shares		**(0.5)**	(11.8)	**(0.5)**	(11.8)
Proceeds from loans and borrowings		**100.0**	–	**100.0**	–
Dividends paid		**-**	(72.1)	**-**	(72.1)
Repayment of loans and borrowings		**(100.0)**	–	**(100.0)**	–
Repayment of principal on lease liabilities		**(42.1)**	(49.6)	**(42.1)**	(49.6)
Net cash outflow from financing activities		**(38.9)**	(128.6)	**(38.9)**	(128.6)
Net (decrease)/increase in cash and cash equivalents		**(54.5)**	3.1	**(54.5)**	3.1
Cash and cash equivalents at the start of the year	17	**91.3**	88.2	**91.3**	88.2
Cash and cash equivalents at the end of the year	17	**36.8**	91.3	**36.8**	91.3

Continued on the next page

STATEMENTS OF CASHFLOWS CONTINUED
FOR THE 53 WEEKS ENDED 2 JANUARY 2021 (2019: 52 WEEKS ENDED 28 DECEMBER 2019)

Cash flow statement – cash generated from operations

		2020 £m	2019 £m	2020 £m	2019 £m
(Loss)/profit for the financial year		**(13.0)**	87.0	**(12.9)**	87.0
Amortisation	10	**4.0**	3.8	**4.0**	3.8
Depreciation – property, plant and equipment	12	**56.9**	56.1	**56.9**	56.1
Depreciation – right-of-use assets	11	**51.9**	50.8	**51.9**	50.8
Impairment – property, plant and equipment	12	**5.2**	0.3	**5.2**	0.3
Impairment – right-of-use assets		**8.8**	0.5	**8.8**	0.5
Loss on sale of property, plant and equipment		**0.5**	1.2	**0.5**	1.2
Release of government grants		**(0.5)**	(0.5)	**(0.5)**	(0.5)
Share-based payment expenses	21	**0.9**	4.4	**0.9**	4.4
Finance expense	6	**6.7**	6.5	**6.7**	6.5
Income tax expense	8	**(0.7)**	21.3	**(0.8)**	21.3
Decrease / (increase) in inventories		**1.4**	(3.1)	**1.4**	(3.1)
(Increase) / decrease in receivables		**(12.3)**	4.5	**(12.3)**	4.5
(Decrease) / increase in payables		**(48.2)**	19.9	**(48.2)**	19.9
Decrease in provisions		**–**	(1.7)	**–**	(1.7)
Decrease in pension liability	21	**–**	(5.0)	**–**	(5.0)
Cash from operating activities		**61.6**	246.0	**61.6**	246.0

Continued on the next page

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 16 March 2021.

(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 accounting standards in conformity with the requirements of the Companies Act 2006 and, as regards the Group accounts, International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union ('IFRSs as adopted by the EU'). 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 2 to 53. The financial position of the Group, its cash flows and liquidity position are described in the financial review on pages 41 to 44. 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 29 December 2019 the following amendments were adopted by the Group:

- Amendments to References to the Conceptual Framework in IFRS Standards;
- Amendments to IAS 1 and IAS 8: Definition of Material; and
- Amendment to IFRS 16 Covid-19-Related Rent Concessions.

Their adoption did not have a material effect on the accounts. The Group chose not to use the practical expedient available in the amendment to IFRS 16.

Continued on the next page

Significant accounting policies continued

(b) Basis of preparation continued

Restatement of comparatives

Due to a change in accounting policy there has been a prior-year restatement of deferred tax balances as a result of an agenda decision issued by the IFRS Interpretations Committee ('IFRIC') in May 2020 which clarified the accounting for deferred tax when the recovery of the carrying amount of an asset gives rise to multiple tax consequences. In these situations, the Company previously assessed the net position for recoverability but following the IFRIC agenda decision is now required to consider the tax consequences separately and as a result a deferred tax asset of £5.7 million relating to buildings which previously qualified for industrial buildings allowances that was first recognised in 2008 has been derecognised in the opening position for the comparative period due to not being considered recoverable. This deferred tax asset of £5.7 million remains unrecognised at 2 January 2021.

This restatement has resulted in the following balance sheet changes whereby deferred tax is adjusted by £5.7 million, resulting in derecognition of the previous deferred tax asset and recognition of a deferred tax liability, and retained earnings reduced by £5.7 million. There is no impact on profit and loss or earnings per share in either the current or the prior year.

	Group		Parent Company	
	At 28 December 2019 £m	At 30 December 2018 £m	At 28 December 2019 £m	At 30 December 2018 £m
Deferred tax asset / (liability)				
As originally stated – deferred tax asset	3.3	0.2	3.7	0.6
Adjustment	(5.7)	(5.7)	(5.7)	(5.7)
As restated – deferred tax liability	(2.4)	(5.5)	(2.0)	(5.1)
Retained earnings				
As originally stated	330.9	313.2	329.2	311.5
Adjustment	(5.7)	(5.7)	(5.7)	(5.7)
As restated	325.2	307.5	323.5	305.8

The accounting policy for deferred tax has been updated to reflect that when the recovery of the carrying amount of an asset gives rise to multiple tax consequences which are not subject to the same income tax laws, separate temporary differences are identified, and the deferred tax on these is accounted for separately, including assessment of the recoverability of any deferred tax assets that arise.

Continued on the next page

Significant accounting policies continued

(b) Basis of preparation continued

Going concern

The Directors have considered the adoption of the going concern basis of preparation for these accounts in the context of the continued uncertainty regarding the ongoing impact of Covid-19 on the trading performance of the Group. At the end of the reporting period the Group had available liquidity comprised of cash and cash equivalents plus an undrawn revolving credit facility (RCF) (which is committed to December 2023) totalling £106.8 million. The RCF covenants relate to maximum borrowing levels and minimum liquidity for the 2021 financial year, thereafter they relate to maximum leverage and a minimum fixed charge cover. How these covenants are measured and the required ratios are set out in Note 2.

In 2020 it was necessary to protect the cash position of the Group whilst the additional credit facilities were put in place. Dividends and capital expenditure were temporarily stopped along with any non-essential expenditure. Government support for job retention was accessed and the Company benefitted from business rate relief.

The Directors have reviewed cash flow forecasts – which include severe but plausible downsides – prepared for a period of 12 months from the date of approval of these accounts as well as covenant compliance for that period.

The forecasts assume that:

- the Covid-19 pandemic requires two months of further lockdown restrictions in November 2021 and February 2022, during which the Company continues to trade as it has done during the most recent periods of lockdown restrictions (i.e. its shops remain open albeit trading at reduced levels);
- there is a gradual recovery in sales levels outside of the restricted periods, which the Group has modelled based on experience in the second half of 2020;
- no further government support is utilised (including for periods where continued availability of support has already been announced);

In this scenario the Group is able to operate without needing to draw on its existing committed lending facility and without taking mitigating actions such as reducing capital expenditure and other discretionary spend.

The Directors further considered a more severe scenario where the Group suffers from a brand-damaging food scare resulting in a significant sales reduction in addition to the downside assumptions described above. In this scenario the Group would take mitigating actions in respect of capital expenditure and other discretionary spend. This forecast scenario shows a possible requirement to draw on the RCF but no breaches of the covenants linked to it.

After reviewing these cash flow forecasts and considering the continued uncertainties and mitigating actions that can be taken, the Directors believe that it is appropriate to prepare the accounts on a going concern basis. After making enquiries, the Directors are confident that the Company and the Group will have sufficient funds to continue to meet their liabilities as they fall due for at least 12 months from the date of approval of the financial statements. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Continued on the next page

Significant accounting policies continued

(b) Basis of preparation continued

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.

Impairment

Property, plant and equipment and right-of-use assets are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable. For example, shop fittings and right-of-use assets may be impaired if sales in that shop fall. When a review for impairment is conducted the recoverable amount is estimated based on either value-in-use calculations or fair value less costs of disposal. Both value-in-use and fair value less costs of disposal calculations require management to estimate future cash flows generated by the assets and an appropriate discount rate. Consideration is also given to whether the impairment assessments made in prior years remain appropriate based on the latest expectations in respect of recoverable amount. Where it is concluded that the impairment has reduced, a reversal of the impairment is recorded.

The Covid-19 crisis has meant that all shops have had periods of no, or reduced, sales and the rate of recovery of sales is inherently uncertain. This is considered to be an impairment trigger and as a result all assets in company-managed shops have been tested for impairment.

As a result of the crisis and following the shutdown period a decision was made not to reopen 38 shops. All shop fittings and right-of-use assets in these shops have been fully impaired (with no significant degree of estimation required) at a cost of £5.3 million (of which £2.5 million relates to fixtures and fittings and £2.8 million relates to right-of-use assets). In addition, a provision of £2.5 million was made for onerous costs and dilapidations directly related to these closures which is expected to be utilised over the remaining term of these shop leases. The assumptions regarding the lease term in respect of these shops were reviewed and where required the lease liability was remeasured before assessing the shop for impairment.

For the remainder of the estate an impairment review was carried out using the following assumptions:

- Shops have been categorised into different catchment areas (e.g. city centres, transport hubs) and assumptions made on the rate of like-for-like sales recovery for each catchment;
- Like-for-like sales have been assumed to grow from December 2020 levels to a level six per cent lower than pre-Covid-19 levels (on average across the estate) by the end of 2021, then continuing to grow to pre-lockdown levels by December 2022, with a further one per cent growth per annum beyond that through to 2027. Where shops are used to fulfil online orders, the revenues from fulfilling these are included within the estimated cash flows for the shop;
- The like-for-like sales recovery assumes temporary national lockdown restrictions (i.e. schools and non-essential retail closed) for the whole of Q1 2021, with further temporary lockdowns in November 2021 and February 2022. For those periods it is assumed that Greggs would trade at a sales level consistent with its recent experience of these conditions;

Continued on the next page

Significant accounting policies continued

(b) Basis of preparation continued

- Earning before interest, tax, depreciation, amortisation and rent ('EBITDAR') is used as a proxy for net cash flow excluding rental payments. The base figures are assumed to include any potential impacts of Brexit;
- The discount rate is based on the Group's weighted average cost of capital ('WACC') with an uplift for risk in the current environment and at 2 January 2021 was 6.7 per cent (28 December 2019: 5.4 per cent); and
- Consideration of the appropriate period over which to forecast cash flows including with regard to the remaining lease term.

On the basis of these calculations an impairment provision of £8.7 million has been made in respect of 87 shops (of which £2.7 million relates to fixtures and fittings and £6.0 million relates to right-of-use assets).

Given the uncertainties of the current trading environment, the sensitivities of these assumptions on the impairment calculation have been tested:

- A one per cent increase in the discount rate would result in an additional provision of £0.7 million, covering a further ten properties. A one percent decrease in the discount rate would result in a reduction in the provision of £0.6 million, with six fewer properties impaired;
- A five per cent per annum increase in the sales recovery assumption would result in a reduction in the provision of £3.7 million with 26 fewer shops impaired. A five per cent decrease in the sales recovery assumption would result in an additional provision of £6.4 million with a further 41 properties impaired; and
- A more severe national lockdown that required our shops to close entirely for the month of January 2022 would result in an additional impairment of £1.4 million covering a further ten shops.

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 had no suitable 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 2 January 2021 a 0.1 per cent change in the discount rate used would have adjusted the total liabilities by £1.2 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 reasonably certain 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 10 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.

Continued on the next page

Significant accounting policies continued

(b) Basis of preparation 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. As at 2 January 2021 the financial effect of applying this judgement was an increase in recognised lease liabilities of £31.9 million (2019: £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. 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 and commutation. Differences arising from actual experience or future changes in assumptions will be reflected in future years. The key assumptions, sensitivities and carrying amounts for 2020 are given in Note 21.

(c) Basis of consolidation

The consolidated accounts include the results of Greggs plc and its subsidiary undertakings for the 53 weeks ended 2 January 2021. The comparative period is the 52 weeks ended 28 December 2019.

(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).

Continued on the next page

Significant accounting policies continued

(c) Basis of consolidation continued

(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 cost 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.

Continued on the next page

Significant accounting policies continued

(g) Leases continued

(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. When there are no external borrowings, judgement would be 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 payment terms. These payments are recognised in the income statement in the period in which the condition that triggers them occurs.

Continued on the next page

Significant accounting policies continued

(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	10 years or length of lease if shorter
Plant, machinery, equipment, vehicles, fixtures and fittings	3 to 10 years

Freehold land is not depreciated.

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

(iv) Assets in the course of construction

These assets are 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.

Continued on the next page

Significant accounting policies continued

(k) Cash and cash equivalents

Cash and cash equivalents comprises cash at bank, in hand, debit and credit card receivables 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.

Continued on the next page

Significant accounting policies continued

(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.

(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.

Continued on the next page

Significant accounting policies continued

(p) Employee benefits continued

(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 contracts

Provisions for onerous contracts are recognised when the Group believes that the unavoidable costs of meeting the contract obligations exceed the economic benefits expected to be received under the contract. At this point and 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. Revenue from delivery services is included in retail sales and recognised on delivery.

(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. Sales are invoiced to customers in credit terms of less than three months.

Continued on the next page

Significant accounting policies continued

(r) Revenue continued

(iii) Wholesale sales

Wholesale sales are recognised when goods are delivered to customers. Separate disclosure of wholesale sales is not made where the information disclosed would be commercially sensitive, e.g. if there is a single wholesale customer. Sales are invoiced to customers in credit terms of less than three months.

(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. Where customers are entitled to a free product after a set number of purchases under the loyalty programme, a proportion of the consideration received is deferred so that the revenue is recognised evenly across all of the linked transactions.

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 net of the related expenses 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.

Continued on the next page

Significant accounting policies continued

(u) Income tax continued

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. When the recovery of the carrying amount of an asset gives rise to multiple tax consequences which are not subject to the same income tax laws, separate temporary differences are identified, and the deferred tax on these is accounted for separately, including assessment of the recoverability of any deferred tax assets that arise.

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.

(w) IFRSs available for early adoption not yet applied

The following 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 IFRS 9, IAS 39, IFRS 7 and IFRS 16: Interest Rate Benchmark Reform – Phase 2 (effective date 1 January 2021).

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

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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 company-managed retail activities, the Group generates revenues from its business to business ('B2B') channel which includes franchise and wholesale activities. With the reduction in the level of company-managed retail activities during 2020 both channels are now categorised as reportable segments for the purposes of IFRS 8.

Company-managed retail activities – the Group sells a consistent range of fresh bakery goods, sandwiches and drinks in its own shops or via delivery channels. Sales are made to the general public on a cash basis. All results arise in the UK.

B2B channel – the Group sells products to franchise and wholesale partners for sale in their own outlets as well as charging a licence fee to franchise partners. These sales and fees are invoiced to the partners on a credit basis. All results arise in the UK.

In the current year the Board has regularly reviewed the revenues of each segment separately. A review of trading profit for each segment was not possible as there was no basis on which meaningfully to allocate costs during the period when the company-managed shops were closed. The Board receives information on overheads, assets and liabilities on an aggregated basis consistent with the Group accounts.

	2020 Retail company-managed shops £m	**2020 B2B £m**	**2020 Total £m**	2019 Retail company-managed shops £m	2019 B2B £m	2019 Total £m
Revenue	**715.3**	**96.0**	**811.3**	1,073.8	94.1	1,167.9
Trading profit*			**66.4**			205.2
Overheads including profit share			**(73.4)**			(90.4)
Operating (loss)/profit			**(7.0)**			114.8
Finance expense			**(6.7)**			(6.5)
(Loss)/profit before tax			**(13.7)**			108.3

* 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.

Continued on the next page

2. Financial risk management continued

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. Short and medium-term cash forecasting is used to manage liquidity risk. These forecasts are used to ensure the Group has sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions.

During the year the Group accessed liquidity under the Covid Corporate Financing Facility ('CCFF') at a favourable rate of interest. The borrowings were repaid in December 2020 and the related costs have been charged to finance costs.

The Group also arranged a £100 million syndicated revolving credit facility which matures in December 2023 with options to extend for up to two years. This facility was undrawn at 2 January 2021. For the first up to twelve months of the facility the covenants in place comprise: monthly net borrowings do not exceed £70 million; and liquidity is maintained above a minimum of £30 million. Thereafter the covenants comprise: leverage (calculated as the ratio of net borrowings to EBITDA) does not exceed 3:1; and fixed charge cover (calculated as the ratio of EBITDA to net rent and interest payable) cannot be below 1.75:1.

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

Interest rate risk is the risk that movement in the interbank offered rates increase causing finance costs to increase. The Group's interest rate risk arises from its revolving credit facility. Whilst the facility remains undrawn increases in the interest rate will not impact on finance costs.

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.

Continued on the next page

2. Financial risk management continued

Capital management

The Group's capital management objectives are:

- To ensure the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To provide an adequate return to shareholders by pricing products and delivering services commensurate with the level of risk.

To meet these objectives the Group reviews the budgets and forecasts on a regular basis to ensure there is sufficient capital to meet the needs of the Group through to profitability and positive cashflow.

The capital structure of the Group consists of shareholders' equity as set out in the consolidated statement of changes in equity. All working capital requirements are financed from existing cash resources and borrowings.

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.

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 2 January 2021 (2019: £nil).

Continued on the next page

2. Financial risk management continued

Financial instruments continued

Fair values

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

Interest rate, credit and foreign currency risk

The Group has not entered into any hedging transactions during the year and considers interest rate, credit and foreign currency risks not to be significant.

3. Profit before tax

Loss / profit before tax is stated after charging / (crediting):

	2020 £m	2019 £m
Amortisation of intangible assets	**4.0**	3.8
Depreciation of owned property, plant and equipment	**56.9**	56.1
Depreciation of right-of-use assets	**51.9**	50.6
Impairment of owned property, plant and equipment	**5.2**	0.3
Impairment of right-of-use assets	**8.8**	0.5
Loss on disposal of fixed assets	**0.4**	1.2
Release of government grants	**(0.5)**	(0.5)
Research and development expenditure	**–**	0.3

Auditor's remuneration for the audit of these accounts amounted to £193,000 (2019: £165,000) and for other assurance services £15,000 (2019: £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.

In addition, the Group received £87 million under the Coronavirus Job Retention Scheme ('CJRS') to support employment. This has been credited to the income statement to offset the related employment costs. A further income statement saving of £18.8 million was made following the suspension of business rates from April 2020.

Continued on the next page

4. Exceptional items

	2020 £m	2019 £m
Cost of sales		
Supply chain restructuring		
– redundancy	**0.1**	0.7
– depreciation and asset write-off	**–**	0.1
– transfer of operations	**0.7**	5.0
– property-related	**–**	0.1
Total exceptional items	**0.8**	5.9

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 2020 and 2019 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. This programme of investment is due to be completed in 2021.

5. Personnel expenses

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

	2020 Number	2019 Number
Management	**681**	702
Administration	**361**	368
Production	**3,026**	2,994
Shop	**20,276**	19,641
	24,344	23,705

The aggregate costs of these persons were as follows:

	Note	2020 £m	2019 £m
Wages and salaries		**363.5**	357.8
Compulsory social security contributions		**26.2**	25.5
Pension costs – defined contribution plans	21	**24.9**	22.6
Equity-settled transactions (including employer's NI costs)	21	**0.2**	6.5
		414.8	412.4

Continued on the next page

5. Personnel expenses continued

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:

	2020 £m	2019 £m
Cost of sales	–	3.3
Distribution and selling costs	–	7.9
Administrative expenses	–	1.6
	–	12.8

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:

	2020 £m	2019 £m
Salaries and fees	**2.7**	2.9
Taxable benefits	**0.1**	0.1
Annual bonus (including profit share)	–	2.3
Post-retirement benefits	**0.3**	0.4
Equity-settled transactions	**0.2**	3.0
	3.3	8.7

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

	2020 £m	2019 £m
Aggregate Directors' remuneration	**2.4**	2.1
Aggregate amount of gains on exercise of share options	–	1.0
	2.4	3.1

The number of Directors in the defined contribution pension scheme and in the defined benefit pension scheme during the year was one (2019: one).

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6. Finance expense

	Note	2020 £m	2019 £m
Interest income on cash balances		**0.4**	0.5
Interest expense on borrowings		**(0.8)**	–
Foreign exchange gain / (loss)		**0.2**	(0.2)
Interest on lease liabilities		**(6.5)**	(6.6)
Net interest related to defined benefit pension obligation	21	**–**	(0.2)
		(6.7)	(6.5)

7. Profit attributable to Greggs plc

Of the Group loss for the year, £12.9 million (2019: £87.0 million profit) 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

	2020 £m	2019 £m
Current tax		
Current year	**(0.6)**	22.2
Adjustment for prior years	**(0.6)**	(0.1)
	(1.2)	22.1
Deferred tax		
Origination and reversal of temporary differences	**0.4**	(0.2)
Adjustment for prior years	**0.1**	(0.6)
	0.5	(0.8)
Total income tax expense in income statement	**(0.7)**	21.3

Continued on the next page

8. Income tax expense continued

Reconciliation of effective tax rate

The table below explains the differences between the expected tax expense calculated at the UK statutory rate of 19 per cent (2019: 19 per cent) and the actual tax expense for each year.

	2020	2020 £m	2019	2019 £m
(Loss)/profit before tax		**(13.7)**		108.3
Income tax using the domestic corporation tax rate	**19.00%**	**(2.6)**	19.00%	20.6
Items not (taxable) / deductible for tax purposes	**(2.35%)**	**0.3**	(0.18%)	(0.2)
Non-tax-deductible depreciation	**(9.39%)**	**1.3**	1.48%	1.6
Impairment of non-tax-deductible assets	**(0.99%)**	**0.1**	–	–
Impact of increase in deferred tax rate	**(4.92%)**	**0.7**	–	–
Adjustment for prior years	**3.49%**	**(0.5)**	(0.63%)	(0.7)
Total income tax expense in income statement	**5.23%**	**(0.7)**	19.67%	21.3

Legislation to maintain the rate of corporation tax at 19 per cent was substantively enacted on 17 March 2020, cancelling the previously enacted reduction to 17 per cent. Any timing differences are therefore expected to reverse at 19 per cent.

Tax recognised in other comprehensive income or directly in equity

	2020 Current tax £m	2020 Deferred tax £m	2020 Total £m	2019 Total £m
Debit / (credit):				
Relating to equity-settled transactions	**–**	**1.5**	**1.5**	(2.8)
Relating to defined benefit pension plans – remeasurement gains	**–**	**(2.1)**	**(2.1)**	0.5
	–	**(0.6)**	**(0.6)**	(2.3)

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 as a result of fluctuations in share price in the year and the stage of maturity of existing schemes together with the revaluation impact of the deferred tax previously recognised directly in equity.

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NOTES TO THE CONSOLIDATED ACCOUNTS CONTINUED

9. Earnings per share

Basic (loss)/earnings per share

Basic earnings per share for the 53 weeks ended 2 January 2021 is calculated by dividing (loss)/profit attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the 53 weeks ended 2 January 2021 as calculated below.

Diluted (loss)/earnings per share

There are no potential ordinary shares in the current year that are considered to be dilutive. The number of potential ordinary shares that could be dilutive in future years is 915,989.

(Loss)/profit attributable to ordinary shareholders

	2020 £m	2019 £m
(Loss)/profit for the financial year attributable to equity holders of the Parent	**(13.0)**	87.0
Basic (loss)/earnings per share	**(12.9p)**	86.2p
Diluted (loss)/earnings per share	**(12.9p)**	85.0p

Weighted average number of ordinary shares

	2020 Number	2019 Number
Issued ordinary shares at start of year	**101,155,901**	101,155,901
Effect of own shares held	**(302,104)**	(342,748)
Effect of shares issued	**113,334**	–
Weighted average number of ordinary shares during the year	**100,967,131**	100,813,153
Effect of share options in issue	**–**	1,505,456
Weighted average number of ordinary shares (diluted) during the year	**100,967,131**	102,318,609

Continued on the next page

10. Intangible assets

Group and Parent Company

	Software £m	Assets under development £m	Total £m
Cost			
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
Balance at 29 December 2019	**28.9**	**1.5**	**30.4**
Additions	**2.7**	**0.1**	**2.8**
Transfers	**1.5**	**(1.5)**	**–**
Balance at 2 January 2021	**33.1**	**0.1**	**33.2**
Amortisation			
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
Balance at 29 December 2019	**13.6**	**–**	**13.6**
Amortisation charge for the year	**4.0**	**–**	**4.0**
Balance at 2 January 2021	**17.6**	**–**	**17.6**
Carrying amounts			
At 29 December 2018	14.0	2.9	16.9
At 28 December 2019	15.3	1.5	16.8
At 29 December 2019	**15.3**	**1.5**	**16.8**
At 2 January 2021	**15.5**	**0.1**	**15.6**

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

Continued on the next page

11. Leases

Amounts recognised in the balance sheets

The balance sheets show the following amounts relating to leases:

Group and Parent Company

	2020 £m	2019 £m
Right-of-use assets		
Land and buildings	**267.8**	269.4
Plant and equipment	**2.3**	3.3
	270.1	272.7

	2020 £m	2019 £m
Lease liabilities		
Current	**48.6**	48.8
Non-current	**243.1**	226.9
	291.7	275.7

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

	2020 £m	2019 £m
Less than one year	**54.4**	51.0
One to two years	**49.3**	48.5
Two to three years	**43.6**	42.5
Three to four years	**39.2**	35.8
Four to five years	**34.2**	31.9
More than five years	**94.9**	94.6
Total undiscounted lease liability	**315.5**	304.3

Additions to right-of-use assets during the 53 weeks ended 2 January 2021 as a result of entering in to new leases (either as a result of acquiring new shops or completing lease renewals for existing shops) were £26.2 million (2019: £45.5 million).

A further net increase of £31.9 million to right-of-use assets has been recognised during the 53 weeks ended 2 January 2021 as a result of lease modifications and assumptions relating to lease term once a lease has expired (2019: £12.6 million).

Continued on the next page

11. Leases continued

Amounts recognised in the income statement

	2020 £m	2019 £m
Depreciation charge on right-of-use assets		
Land and buildings	**50.2**	48.9
Plant and equipment	**1.7**	1.9
	51.9	50.8
Interest expense (included in finance cost)	**6.5**	6.6
Expense included for short-term leases (included in cost of sales and administrative expenses)	**0.2**	0.2
Expense related to lease of low-value assets that are not shown above as short-term leases (included in administrative expenses)	**0.2**	0.2
Expense related to variable lease payments not included in lease liabilities (included in selling and distribution)	**0.6**	2.2

The total cash outflow for leases in 2020 was £48.6 million (2019: £56.2 million).

The components of the movement in the total lease liability were as follows:

	2020 £m
Opening total liability	**275.7**
Additions in respect of new leases	**26.2**
Lease modifications	**31.9**
Interest on lease liabilities	**6.5**
Rental payments	**(48.6)**
Closing total liability	**291.7**

Continued on the next page

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 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
Balance at 29 December 2019	**166.3**	**168.6**	**337.8**	**5.9**	**678.6**
Additions	**3.3**	**10.1**	**19.6**	**22.9**	**55.9**
Disposals	**(0.7)**	**(8.1)**	**(8.7)**	**–**	**(17.5)**
Transfers	**–**	**1.9**	**–**	**(1.9)**	**–**
Balance at 2 January 2021	**168.9**	**172.5**	**348.7**	**26.9**	**717.0**
Depreciation					
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
Balance at 29 December 2019	**48.2**	**89.3**	**187.4**	**–**	**324.9**
Depreciation charge for the year	**4.9**	**14.3**	**37.6**	**–**	**56.8**
Impairment charge for the year	**–**	**–**	**5.9**	**–**	**5.9**
Impairment release for the year	**–**	**–**	**(0.7)**	**–**	**(0.7)**
Disposals	**(0.3)**	**(7.4)**	**(7.5)**	**–**	**(15.2)**
Balance at 2 January 2021	**52.8**	**96.2**	**222.7**	**–**	**371.7**
Carrying amounts					
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
At 29 December 2019	**118.1**	**79.3**	**150.4**	**5.9**	**353.7**
At 2 January 2021	**116.1**	**76.3**	**126.0**	**26.9**	**345.3**

Assets under construction relate to the building of an automated cold storage facility and the value of the assets will be recovered through the normal course of trade.

Continued on the next page

12. Property, plant and equipment continued

Group continued

Assets are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable and provision is made where necessary. The method and assumptions used in these calculations, together with the associated sensitivities, are set out in the basis of preparation – key estimates and judgements on page 123 and 124.

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 2020 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.

Continued on the next page

12. Property, plant and equipment continued

Parent Company

	Land and buildings £m	Plant and equipment £m	Fixtures and fittings £m	Assets under construction £m	Total £m
Cost					
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
Balance at 29 December 2019	**166.8**	**169.1**	**338.3**	**5.9**	**680.1**
Additions	**3.3**	**10.1**	**19.6**	**22.9**	**55.9**
Disposals	**(0.7)**	**(8.1)**	**(8.7)**	**–**	**(17.5)**
Transfers	**–**	**1.9**	**–**	**(1.9)**	**–**
Balance at 2 January 2021	**169.4**	**173.0**	**349.2**	**26.9**	**718.5**
Depreciation					
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
Balance at 29 December 2019	**48.5**	**89.5**	**187.8**	**–**	**325.8**
Depreciation charge for the year	**4.9**	**14.3**	**37.6**	**–**	**56.8**
Impairment charge for the year	**–**	**–**	**5.9**	**–**	**5.9**
Impairment release for the year	**–**	**–**	**(0.7)**	**–**	**(0.7)**
Disposals	**(0.3)**	**(7.4)**	**(7.5)**	**–**	**(15.2)**
Balance at 2 January 2021	**53.1**	**96.4**	**223.1**	**–**	**372.6**
Carrying amounts					
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
At 29 December 2019	**118.3**	**79.6**	**150.5**	**5.9**	**354.3**
At 2 January 2021	**116.3**	**76.6**	**126.1**	**26.9**	**345.9**

Continued on the next page

12. Property, plant and equipment continued

Land and buildings

The carrying amount of land and buildings comprises:

	Group		Parent Company	
	2020 £m	2019 £m	**2020 £m**	2019 £m
Freehold property	**115.1**	116.9	**115.3**	117.1
Short leasehold property	**1.0**	1.2	**1.0**	1.2
	116.1	118.1	**116.3**	118.3

13. Investments

Non-current investments

Parent Company

	Shares in subsidiary undertakings £m
Cost	
Balance at 30 December 2018, 29 December 2019 and 2 January 2021	**5.8**
Impairment	
Balance at 30 December 2018, 29 December 2019 and 2 January 2021	**0.8**
Carrying amount	
Balance at 30 December 2018, 28 December 2019, 29 December 2019 and 2 January 2021	**5.0**

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13. Investments continued

Non-current investments continued

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.

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14. Deferred tax assets and liabilities

Group

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2020 £m	2019 £m	**2020 £m**	2019 Restated* £m	**2020 £m**	2019 Restated* £m
Property, plant and equipment	**–**	–	**(8.3)**	(8.5)	**(8.3)**	(8.5)
Employee benefits	**5.5**	5.4	**–**	–	**5.5**	5.4
Short-term temporary differences	**0.5**	0.7	**–**	–	**0.5**	0.7
Tax assets / (liabilities)	**6.0**	6.1	**(8.3)**	(8.5)	**(2.3)**	(2.4)

* Due to a change in accounting policy, there has been a prior year restatement of deferred tax balances. Further details of this change and its impact are given in the Basis of preparation on page 121. As a result of this change in accounting policy the Group has a deferred tax asset of £5.7 million that is unrecognised at 2 January 2021(28 December 2019: £5.7 million).

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

	Balance at 30 December 2018 Restated £m	Recognised in income £m	Recognised in equity £m	Balance at 28 December 2019 Restated £m
Property, plant and equipment	(8.9)	0.4	–	(8.5)
Employee benefits	3.2	(0.1)	2.3	5.4
Short-term temporary differences	0.2	0.5	–	0.7
	(5.5)	0.8	2.3	(2.4)

The movements in temporary differences during the 53 weeks ended 2 January 2021 were as follows:

	Balance at 29 December 2019 Restated £m	**Recognised in income £m**	**Recognised in equity £m**	**Balance at 2 January 2021 £m**
Property, plant and equipment	**(8.5)**	**0.2**	**–**	**(8.3)**
Employee benefits	**5.4**	**(0.5)**	**0.6**	**5.5**
Short-term temporary differences	**0.7**	**(0.2)**	**–**	**0.5**
	(2.4)	**(0.5)**	**0.6**	**(2.3)**

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14. Deferred tax assets and liabilities continued

Parent Company

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2020 £m	2019 £m	**2020 £m**	2019 Restated £m	**2020 £m**	2019 Restated £m
Property, plant and equipment	**–**	–	**(7.8)**	(8.1)	**(7.8)**	(8.1)
Employee benefits	**5.5**	5.4	**–**	–	**5.5**	5.4
Short-term temporary differences	**0.5**	0.7	**–**	–	**0.5**	0.7
Tax assets / (liabilities)	**6.0**	6.1	**(7.8)**	(8.1)	**(1.8)**	(2.0)

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

	Balance at 30 December 2018 Restated £m	Recognised in income £m	Recognised in equity £m	Balance at 28 December 2019 Restated £m
Property, plant and equipment	(8.5)	0.4	–	(8.1)
Employee benefits	3.2	(0.1)	2.3	5.4
Short-term temporary differences	0.2	0.5	–	0.7
	(5.1)	0.8	2.3	(2.0)

The movements in temporary differences during the 53 weeks ended 2 January 2021 were as follows:

	Balance at 29 December 2019 Restated £m	**Recognised in income £m**	**Recognised in equity £m**	**Balance at 2 January 2021 £m**
Property, plant and equipment	**(8.1)**	**0.3**	**–**	**(7.8)**
Employee benefits	**5.4**	**(0.5)**	**0.6**	**5.5**
Short-term temporary differences	**0.7**	**(0.2)**	**–**	**0.5**
	(2.0)	**(0.4)**	**0.6**	**(1.8)**

Continued on the next page

15. Inventories

	Group and Parent Company	
	2020 £m	2019 £m
Raw materials and consumables	**13.3**	19.4
Work in progress	**9.2**	4.5
	22.5	23.9

The write-down of inventories that was recognised as an expense in the period was £34.9 million (2019: £33.9 million).

16. Trade and other receivables

	Group and Parent Company	
	2020 £m	2019 £m
Trade receivables	**22.0**	15.8
Other receivables	**11.4**	6.0
Prepayments	**6.0**	5.3
	39.4	27.1

At 2 January 2021 the allowance for bad debts was immaterial. Expected credit losses ('ECLs') on financial assets are not material.

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

	Group and Parent Company	
	2020 £m	2019 £m
Not past due date	**17.3**	14.5
Past due 1-30 days	**3.9**	1.1
Past due 31-90 days	**0.7**	0.2
Past due over 90 days	**0.1**	–
	22.0	15.8

The Group believes that all amounts that are past due by more than 30 days that have an immaterial allowance for ECLs 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 allowance for ECLs is necessary in respect of trade receivables not past due.

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17. Cash and cash equivalents

	Group and Parent Company	
	2020 £m	2019 £m
Cash and cash equivalents	**36.8**	91.3

18. Trade and other payables

	Group		Parent Company	
	2020 £m	2019 £m	**2020 £m**	2019 £m
Trade payables	**48.8**	66.7	**48.8**	66.7
Amounts owed to subsidiary undertakings	**–**	–	**7.7**	7.7
Other taxes and social security	**6.8**	8.9	**6.8**	8.9
Other payables	**17.4**	31.9	**17.4**	31.9
Accruals	**15.1**	32.0	**15.1**	32.0
Advance payments from customers	**2.5**	2.3	**2.5**	2.3
Deferred government grants	**0.5**	0.5	**0.5**	0.5
	91.1	142.3	**98.8**	150.0

In 2019 accruals and other payables included accruals of £27.0 million for performance-related remuneration. There are no similar accruals in 2020.

19. Current tax liability

The current tax liability of £0.0 million in the Group and the Parent Company (2019: Group and Parent Company £11.8 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	
	2020 £m	2019 £m
Deferred government grants	**3.7**	4.2

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.

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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	
	2020 £m	2019 £m
Defined benefit obligation	**(143.4)**	(127.6)
Fair value of plan assets	**131.5**	127.0
Net defined benefit pension liability	**(11.9)**	(0.6)

Continued on the next page

21. Employee benefits continued

Defined benefit pension 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	
	2020 £m	2019 £m
Opening defined benefit pension obligation	**127.6**	113.5
Past service costs	**0.1**	–
Interest cost	**2.5**	3.1
Remeasurement (gains) / losses:		
– changes in mortality assumptions	**1.1**	(0.9)
– changes in financial assumptions	**19.2**	15.5
– experience	**(3.4)**	–
Benefits paid	**(3.7)**	(3.6)
Closing defined benefit pension obligation	**143.4**	127.6

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

	Group and Parent Company	
	2020 £m	2019 £m
Opening fair value of plan assets	**127.0**	105.1
Net interest on plan assets	**2.5**	2.9
Remeasurement gains	**5.7**	17.6
Company special contribution	**–**	5.0
Benefits paid	**(3.7)**	(3.6)
Closing fair value of plan assets	**131.5**	127.0

The costs charged in the income statement are as follows:

	Group	
	2020 £m	2019 £m
Interest expense on net defined benefit pension liability	**–**	0.2

Continued on the next page

21. Employee benefits continued

Defined benefit pension plan continued

The amounts recognised in other comprehensive income are as follows:

	Group	
	2020 £m	2019 £m
Remeasurement (losses) / gains on defined benefit pension plans	**(11.2)**	3.0

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 £31.3 million (2019: net losses of £20.1 million).

The fair value of the plan assets is as follows:

		Group and Parent Company	
		2020 £m	2019 £m
Equities	– UK	**21.5**	46.5
	– overseas	**50.1**	36.7
Bonds	– corporate	**19.6**	12.7
	– government	**31.8**	23.7
Absolute return funds		**–**	1.1
Cash and cash equivalents/other		**8.5**	6.3
		131.5	127.0

Principal actuarial assumptions (expressed as weighted averages):

	Group and Parent Company	
	2020	2019
Discount rate	**1.25%**	1.95%
Future salary increases	**n/a**	n/a
Future pension increases	**1.8% – 2.3%**	1.7% – 2.45%
Rate of price inflation (RPI)	**2.85%**	2.95%
Rate of price inflation (CPI)	**2.25%**	2.05%

In November 2020 the Government announced that RPI is to be aligned with CPIH (CPI with owner occupiers' costs) from 2030. As a result the RPI assumption has been updated along with the assumed future gap between RPI and CPI.

Continued on the next page

21. Employee benefits continued

Defined benefit pension plan continued

Mortality assumption

Mortality in retirement is assumed to be in line with the S2PXA tables using CMI_2019 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 22.2 years (2019: 22.1 years) if they are male and 24.2 years (2019: 23.7 years) if they are female. Members currently aged 45 are expected to live for a further 23.6 years (2019: 23.5 years) from age 65 if they are male and for a further 25.7 years (2019: 25.2 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	£2.6 million decrease
Discount rate	0.5% increase	£12.9 million decrease
Inflation	0.1% decrease	£1.6 million decrease
Inflation	0.5% decrease	£8.2 million decrease
Mortality rates	1 year increase	£5.3 million increase

If the commutation assumption were to be removed from the valuation the impact would be an increase in the scheme liabilities of £8.0 million.

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

A 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. The 2020 triennial valuation is ongoing.

During 2019 the Company made a special contribution of £5.0 million in support of the strategy adopted by the Trustees to achieve a buy-out of liabilities within 10 years.

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21. Employee benefits continued

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 £24.9 million (2019: £22.6 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.

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
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	1022p	298,045	Three years' service and EPS growth of 1-7% over RPI on average over those three years	10 years

Continued on the next page

21. Employee benefits continued

Share-based payments – Group and Parent Company continued

	Date of grant	Employees entitled	Exercise price	Number of shares granted	Vesting conditions	Contractual life
Executive Share Option Scheme 18a	May 2015	Senior employee	1056p	3,285	Three years' service and EPS growth of 1-7% over RPI on average over those three years	10 years
Performance Share Plan 6	March 2015	Senior executives	£nil	146,174	Three years' service, EPS annual compound growth of 1-7% over RPI over those three years and average annual ROCE of 19-21.5% over those three years	10 years
Performance Share Plan 7	March 2016	Senior executives	£nil	133,271	Three years' service, EPS average annual growth of 2-8% over RPI over those three years and average annual ROCE of 22-27% over those three years	10 years
Executive Share Option Scheme 19	April 2016	Senior employees	1088p	235,857	Three years' service and EPS growth of 2-8% over RPI on average over those three years	10 years
Savings-Related Share Option Scheme 17	April 2016	All employees	870p	361,853	Three years' service	3.5 years
Performance Share Plan 8	May 2017	Senior executives	£nil	206,404	Three years' service, EPS average annual growth of 5-11% over those three years and average annual ROCE of 23-27% over those three years	10 years
Executive Share Option Scheme 20	April 2017	Senior employees	1033p	246,219	Three years' service and EPS growth of 5-11% on average over those three years	10 years
Savings-Related Share Option Scheme 18	April 2017	All employees	807p	403,560	Three years' service	3.5 years
Performance Share Plan 9	March 2018	Senior executives	£nil	190,943	Three years' service, EPS average annual growth of 5-11% over those three years and average annual ROCE of 25-29% over those three years	10 years
Executive Share Option Scheme 21	March 2018	Senior employees	1197p	228,923	Three years' service and EPS growth of 5-11% on average over those three years	10 years
Savings-Related Share Option Scheme 19	April 2018	All employees	954p	335,482	Three years' service	3.5 years

Continued on the next page

21. Employee benefits continued

Share-based payments – Group and Parent Company continued

	Date of grant	Employees entitled	Exercise price	Number of shares granted	Vesting conditions	Contractual life
Performance Share Plan 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	1830p	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	1484p	230,604	Three years' service	3.5 years
Savings-Related Share Option Scheme 21	April 2020	All employees	1424p	239,673	Three years' service	3.5 years
Performance Share Plan 11	October 2020	Senior executives	£nil	166,366	Three years' service, EPS performance in 2022, ROCE performance in 2022 and two strategic objectives	10 years
Executive Share Option Scheme 23	November 2020	Senior employees	1720p	121,202	Three years' service, EPS performance in 2022, ROCE performance in 2022 and two strategic objectives	10 years

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

	2020		2019	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
Outstanding at the beginning of the year	**781p**	**2,342,496**	690p	2,744,060
Lapsed during the year	**1203p**	**(87,654)**	870p	(200,762)
Exercised during the year	**703p**	**(429,086)**	697p	(700,853)
Granted during the year	**1043p**	**527,211**	1200p	500,051
Outstanding at the end of the year	**607p**	**2,352,967**	781p	2,342,496
Exercisable at the end of the year	**569p**	**721,628**	546p	423,556

The options outstanding at 2 January 2021 have an exercise price in the range of £nil to £18.30 and have a weighted average contractual life of 5.36 years. The options exercised during the year had a weighted average market value of £17.61 (2019: £20.13).

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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:

	2020			2019		
	Performance Share Plan 11 October 2020	Executive Share Option Scheme 23 November 2020	Savings-Related Share Option Scheme 21 April 2020	Performance Share Plan 10 April 2019	Executive Share Option Scheme 22 April 2019	Savings-Related Share Option Scheme 20 April 2019
Fair value at grant date	**1325p**	**493p**	**519p**	1726p	307p	469p
Share price	**1407p**	**1720p**	**1780p**	1830p	1830p	1855p
Exercise price	**Nil**	**1720p**	**1424p**	Nil	1830p	1484p
Expected volatility	**45.81%**	**48.43%**	**38.02%**	28.06%	28.06%	28.07%
Option life	**3 years**	**3 years**	**3 years**	3 years	3 years	3 years
Expected dividend yield	**2.00%**	**2.00%**	**2.52%**	1.95%	1.95%	1.92%
Risk-free rate	**(0.05%)**	**(0.04%)**	**0.12%**	0.75%	0.75%	0.64%

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/(credited) to the income statement relating to share-based payments were as follows:

	2020 £m	2019 £m
Share options granted in 2016	**–**	0.3
Share options granted in 2017	**0.2**	1.9
Share options granted in 2018	**(0.2)**	1.5
Share options granted in 2019	**0.5**	0.7
Share options granted in 2020	**0.4**	–
Total expense recognised as employee costs	**0.9**	4.4

Continued on the next page

22. Provisions

	Group and Parent Company									
	2020 Dilapidations £m	**2020 National Insurance £m**	**2020 Redundancy £m**	**2020 Other £m**	**2020 Total £m**	2019 Dilapidations £m	2019 National Insurance £m	2019 Redundancy £m	2019 Other £m	2019 Total £m
Balance at start of year	**2.3**	**2.3**	**1.1**	**1.7**	**7.4**	2.8	0.8	3.5	2.3	9.4
Additional provision in the year:										
Ordinary	**1.2**	**–**	**10.6**	**2.1**	**13.9**	1.1	2.1	0.8	–	4.0
Exceptional	**–**	**–**	**0.2**	**–**	**0.2**	–	–	0.7	–	0.7
Utilised in year:										
Ordinary	**(0.1)**	**(0.2)**	**(9.4)**	**(0.4)**	**(10.1)**	(0.4)	(0.6)	(0.5)	(0.1)	(1.6)
Exceptional	**–**	**–**	**(0.8)**	**–**	**(0.8)**	–	–	(3.4)	–	(3.4)
Provisions reversed during the year:										
Ordinary	**(0.7)**	**(0.6)**	**(0.7)**	**(1.1)**	**(3.1)**	(1.0)	–	–	(0.5)	(1.5)
Exceptional	**–**	**–**	**(0.1)**	**–**	**(0.1)**	(0.2)	–	–	–	(0.2)
Balance at end of year	**2.7**	**1.5**	**0.9**	**2.3**	**7.4**	2.3	2.3	1.1	1.7	7.4
Included in current liabilities	**1.4**	**1.4**	**0.7**	**0.9**	**4.4**	1.5	1.7	1.1	1.5	5.8
Included in non-current liabilities	**1.3**	**0.1**	**0.2**	**1.4**	**3.0**	0.8	0.6	–	0.2	1.6
	2.7	**1.5**	**0.9**	**2.3**	**7.4**	2.3	2.3	1.1	1.7	7.4

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

	2020 Dilapidations £m	2020 National Insurance £m	2020 Redundancy £m	2020 Other £m	2020 Total £m	2019 Dilapidations £m	2019 National Insurance £m	2019 Redundancy £m	2019 Other £m	2019 Total £m
Ordinary	**2.5**	**1.5**	**0.8**	**2.1**	**6.9**	2.1	2.3	0.3	1.5	6.2
Exceptional	**0.2**	**–**	**0.1**	**0.2**	**0.5**	0.2	–	0.8	0.2	1.2
	2.7	**1.5**	**0.9**	**2.3**	**7.4**	2.3	2.3	1.1	1.7	7.4

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.

Other provisions are largely in respect of onerous costs relating to closed shops where the lease has not yet expired.

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.

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23. Capital and reserves

Share capital

	Ordinary shares	
	2020 Number	**2019 Number**
In issue and fully paid at start of year – ordinary shares of 2p	**101,155,901**	101,155,901
Issued on exercise of share options	**270,137**	–
In issue and fully paid at the end of year – ordinary shares of 2p	**101,426,038**	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.

During the year 270,137 shares were issued as a result of the exercise of vested options granted to senior management under the Executive Share Option Scheme and the exercise of options under the Savings-Related Share Option Scheme. Options were exercised at an average price of £8.23.

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 £39.0 million (2019: £39.9 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 227,965 shares (2019: 406,357 shares) with a market value at 2 January 2021 of £4.1 million (2019: £9.3 million) which have not vested unconditionally in employees. During the year the Trust purchased 25,600 (2019: 547,713) shares for an aggregate consideration of £0.5 million (2019: £11.8 million) and sold 203,992 (2019: 702,222) shares for an aggregate consideration of £1.5 million (2019: £4.9 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.

Continued on the next page

23. Capital and reserves continued

Dividends

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

	2020 Per share pence	2019 Per share pence
2018 final dividend	–	25.0p
2019 interim dividend	–	11.9p
2019 special dividend	–	35.0p
2019 final dividend	–	–
	–	71.9p

The final declared dividend of 33.0p in respect of 2019 was cancelled as a cash preservation measure in response to the Covid-19 crisis. No dividends have been declared in respect of 2020.

	2020 £m	2019 £m
2018 final dividend	–	25.3
2019 interim dividend	–	12.0
2019 special dividend	–	35.3
2019 final dividend	–	–
	–	72.6

24. Capital commitments

During the 53 weeks ended 2 January 2021, the Group entered into contracts to purchase property, plant and equipment and intangible assets for £8.5 million (2019: £35.7 million) which are expected to be settled in the following financial year.

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25. 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 (2019: none).

Trading transactions with subsidiaries – Parent Company

	Amounts owed to related parties		Amounts owed by related parties	
	2020 £m	2019 £m	**2020 £m**	2019 £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 £1.1 million (2019: £1.3 million), as well as passing on £0.3 million (2019: £0.4 million) raised from the sale of carrier bags and £0.2 million (2019: £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 79 to 101. Summary information on remuneration of key management personnel is included in Note 5.

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Greggs plc
Ten-year history

	2011	2012 (as restated)[2]	2013	2014 (as restated)[1,3]	2015[1]	2016	2017	2018	2019[5]	2020[1]
Turnover (£m)	701.1	734.5	762.4	806.1	835.7	894.2	960.0	1,029.3	1,167.9	**811.3**
Total sales growth/(decline)	5.8%	4.8%	3.8%	5.7%	3.7%	7.0%	7.4%	7.2%	13.5%	**(30.5%)**
Company-managed shop like-for-like sales growth/(decline)	1.4%	(2.7%)	(0.8%)	4.5%	4.7%	4.2%	3.7%	2.9%	9.2%	**(36.2%)**
Profit/(loss) before tax (PBT) excluding exceptional items (£m)	53.1	50.9	41.3	58.3	73.1	80.3	81.7	89.8	114.2	**(12.9)**
PBT margin excluding exceptional items	7.6%	6.9%	5.4%	7.2%	8.7%	9.0%	8.5%	8.7%	9.8%	**(15.9%)**
Pre-tax exceptional credit/(charge) (£m)	7.4	1.4	(8.1)	(8.5)	–	(5.2)	(9.9)	(7.2)	(5.9)	**(0.8)**
Profit/(loss) on ordinary activities including exceptional items and before tax (£m)	60.5	52.4	33.2	49.7	73.0	75.1	71.9	82.6	108.3	**(13.7)**
Diluted earnings per share excluding exceptional items (pence)	38.8	38.3	30.6	43.4	55.8	60.8	63.5	70.3	89.7	**(12.9)**
Dividend per share (pence)	19.3	19.5	19.5	22.0	48.6[4]	31.0	32.3	35.7	46.9[6]	**-**
Total shareholder return	13.0%	(6.1%)	0.6%	69.7%	87.1%	(23.8%)	47.5%	(7.4%)	87.5%	**(22.0%)**
Capital expenditure (£m)	59.1	46.9	47.6	48.9	71.7	80.4	70.4	73.0	86.0	**58.7**
Return on capital employed (excluding exceptional items)	24.4%	21.3%	16.4%	22.4%	26.8%	28.1%	26.9%	27.4%	20.0%	**(2.4%)**
Number of shops in operation at year end	1,571	1,671	1,671	1,650	1,698	1,764	1,854	1,953	2,050	**2,078**

1 2014 and 2020 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 paid in 2015.
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. The final dividend declared in respect of 2019 was cancelled as a cash preservation measure during the Covid-19 crisis

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Calculation of alternative performance measures

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.

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:

	2020 £m	2019 £m
Current year LFL sales	**665.2**	987.8
Prior year LFL sales	**1,042.2**	904.7
(Decline)/growth	**(377.0)**	83.1
LFL sales (decline)/growth percentage	**(36.2%)**	9.2%

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

	2020 £m	2019 Underlying £m	2019 Including exceptional items £m
(Loss)/profit before tax	**(13.7)**	114.2	108.3
Capital employed:			
Opening	**580.1**	559.3	559.3
Closing	**589.8**	580.1	580.1
Average	**584.9**	569.7	569.7
Return on capital employed	**(2.3%)**	20.0%	19.0%

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

	2020 £m	2019 £m
Net cash inflow from operating activities	**43.6**	219.1
Repayment of principle of lease liabilities	**(42.1)**	(49.6)
Net cash inflow from operating activities after lease payments	**1.5**	169.5

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