



 **GREGGS**
Everyday tastes good™

Greggs plc Annual Report and Accounts 2016



GREGGS

Everyday tastes good™
because...



We have been making



**GREAT
QUALITY**

*bakery products
OURSELVES
for over 75 years*

Every savoury is

***freshly
baked***

in our shops



Every sandwich is
**FRESHLY
PREPARED**
every day



We make sure our range

MEETS our
CUSTOMERS'
NEEDS

Gluten
FREE

ALL THE TASTE
**BALANCED
choice**
ALL UNDER 400 CALORIES

Our
**BALANCED
CHOICE**

menu continues to grow

...and now accounts for **£100m** of SALES



★ ★ There is always something **NEW to excite** customers ★ ★
but *our* **CLASSIC FAVOURITES** *can't be beaten*

...our ***iconic sausage roll***

continues to be our
BEST SELLER



**GREGGS
REWARDS**
*customers for their
loyalty*



We offer
GREAT VALUE
all day, every day!

Our customers can
TRUST

what our food
is made of

BBFAW
Business Benchmark
on Farm Animal Welfare



We *share* our *success* with the communities around us...

400+
BREAKFAST
CLUBS



Unsold food **DONATED** to

GOOD CAUSES

has increased

sixteen-fold since 2013

We **SHARE**



10% of our profits
between our team members

20,000

WELL TRAINED colleagues
provide **GREAT SERVICE** to their
CUSTOMERS



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



FTSE4Good

WE ARE
INVESTING

Constantly

to improve our shops
and open new ones:

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

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

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

We *love* to engage with our customers through





WE STAND FOR GREAT TASTING,
FRESHLY PREPARED FOOD THAT
OUR CUSTOMERS CAN TRUST,
AT AFFORDABLE PRICES
AND AIM TO BECOME THE
CUSTOMERS' FAVOURITE
FOR FOOD-ON-THE-GO.

WITH AMBITIONS TO GROW TO OVER 2,000 SHOPS NATIONWIDE
AND OWNERSHIP OF OUR SUPPLY CHAIN WE ARE IN A UNIQUE
POSITION TO **MAKE GOOD, FRESHLY PREPARED FOOD**
ACCESSIBLE TO EVERYONE, ENSURING THAT
'EVERYDAY TASTES GOOD' AT GREGGS.



STRATEGIC PROGRESS



2016 has been another year of real progress for us as we continued on our journey to transform Greggs into a winning brand in the food-on-the-go market. We've been busy developing our great range of freshly prepared food in line with changing food trends, improving our shops and investing in customer service so we're now tastier than ever!

We've made good progress with our £25 million programme of investment in new systems and announced plans to invest £100 million in our supply chain, which will allow us to compete more effectively in the food-on-the-go market and grow shop numbers. The result has been a third consecutive year of strong like-for-like sales growth and record profits.

.....



FINANCIAL HIGHLIGHTS



	UNDERLYING EXCLUDING EXCEPTIONAL ITEMS	TOTAL INCLUDING EXCEPTIONAL ITEMS
Total sales	£894m +7.0%	£894m +7.0%
Company-managed shop like-for-like sales	4.2%	4.2%
Pre-tax profit	£80.3m +10.0%	£75.1m +2.9%
Diluted EPS	60.8p	56.7p
Ordinary dividend	31.0p +8.4%	31.0p +8.4%
Return on capital employed	28.1%	26.2%

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We've been on a journey to transform Greggs from a traditional bakery business into a winning brand in the dynamic food-on-the-go market...

Having made strong progress in recent years, we are now ready to set the bar higher, refreshing both our vision and strategic plan to reflect our longer-term ambitions and commitment to putting the customer at the heart of our strategy.

Our purpose

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

Our vision

In recent years we have shown we can be a winning brand in the food-on-the-go market and our vision now is to become the **customers' favourite for food-on-the-go**. To achieve this we need to get even better at seeing our business through the eyes of customers and have continued to invest in understanding their needs. We recently appointed a new Customer Director to lead our development of customer insight, making sure it drives decision making across the business.

Our operations

Ownership of our supply chain means that we can **make good, freshly prepared food accessible to everyone** at great value in

an extremely competitive market place.

By managing our own logistics operation we can remain focused on the customer, delivering what our shops and customers need on time and in full.

Our target market

Greggs is a brand with universal appeal and we have been working hard to ensure we understand our customers and evolve our offer in response to their changing needs. This customer understanding informs all our decision making as we set out to become the **customers' favourite for food-on-the-go**.

Our market locations

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



A typical day in the life of Greggs:

How we make sure 'Everyday tastes good' at Greggs



- Manufacturing and distribution centre
- Distribution centre
- Manufacturing centre

🕒 4:00am

Teams in our combined manufacturing and distribution centres pull together shop orders



Continued overleaf

🕒 5:00am

From the bread used to make our tasty sandwiches to the nation's favourite sausage roll, our dedicated manufacturing teams start work early in the morning and continue throughout the day, to ensure all of our products are of the highest quality

🕒 5:30-6:00am

Our Shop Managers arrive to prepare their shops for the busy day ahead, one of their first jobs involves unpacking products that are delivered fresh every day



GREGGS AT A GLANCE



 **7:00am**

Our shops open for business and the increasingly busy breakfast trade starts, with many customers choosing our outstanding £2 breakfast deal to start their day



 **6:00am**

From freshly preparing our tasty sandwiches to baking-off our iconic savouries our shop teams set to work to make sure we can offer our customers great availability as soon as the doors open

 **7:30-9:00am**

Our head office support teams arrive at Greggs House and Customer Care lines open





Our dedicated delivery fleet work through the night

To make sure all of our shops receive their orders on time, in full and that 'Everyday tastes good' for our customers

🕒 11:00am

With the breakfast rush over, our shop teams make sure our shelves and counters are full with our customers' lunchtime favourites

🕒 6:00pm

Closing time for the majority of our shops

🕒 12:00-2:00pm

Lunch is served! Our shop teams deliver fast and friendly service with a smile



🕒 3:00pm

With the lunchtime rush over our snacking options and £2 sweet treat and hot drink deal appeal to customers in need of an energy boost

🕒 12:30am

Production finishes... until 5am the next day



Investing in our future



Greggs performed strongly in 2016, benefiting from the investments that we have made in recent years and the continued implementation of changes in line with our strategic plan. The food-on-the-go market continues to grow and is highly competitive and fast-moving. This requires us to constantly evolve and develop our offer to customers. Our clear plan and record of delivery is bringing sustainable long-term growth for the benefit of all stakeholders.

Overview

In 2016 Greggs demonstrated once again its ability to manage a major change agenda whilst delivering a strong trading and financial performance. The Greggs brand is increasingly relevant to consumers in the food-on-the-go market as a result of our investments in the shop estate and the quality of our food and drink offer. We have made notable progress in the overhaul of our processes and systems and this will continue in the year ahead, alongside significant investment to transform our internal supply chain to support further growth in shop numbers and deliver a more efficient business.

The Chief Executive's report provides greater detail on performance in 2016 and progress against our strategic plan.

Our people and values

Consumers have many options in the food-on-the-go market, and we have to ensure that all aspects of our business support our purpose and strategy. This has required us to make some difficult decisions, particularly regarding the organisation of our manufacturing and logistics operations, which the Board has considered carefully and which are outlined in this report. In all its discussions the Board has been clear to ensure that any changes are implemented with due regard to our values: being open, honest and treating people with consideration and respect.



I would like to thank everyone who has worked for Greggs during the past year and contributed to such a strong performance on so many levels.



*Passion drives us forward and
we are able to deliver success by
loving what we do*



Find out what goes on behind the scenes in 24 hours on page 5-7



These values are also reflected in our approach to conducting business responsibly. We have made further improvements to our already strong reputation in areas such as environmental management, animal welfare and support for the communities where we trade. Acting responsibly and conducting business in a sustainable manner by looking after the interests of all stakeholders is ultimately in the best interests of shareholders.

I would like to thank everyone who has worked for Greggs during the past year and contributed to such a strong performance on so many levels. Their commitment to delivering outstanding service and value to our customers every day was clearly reflected in customer satisfaction and sales in 2016.

The Board

The composition of the Board was unchanged in 2016. Much of our time has been spent overseeing the major programmes of change that support the Company's strategic plan, particularly the significant investment under way to grow our internal supply chain. We also continued to focus on the development of our people and our understanding of the needs of customers.

Directors continue to be encouraged to get out into the business, sample our products and talk with colleagues and customers. In doing so we ensure that Non-Executive Directors' contributions to Board discussions are well informed, supporting open and constructive dialogue with the management team.

The Board oversees the allocation of resources for the business and this includes the level of investment in its operations, taking account of shareholder returns as well as a fair reward to staff, responsible funding of pension obligations and equitable treatment of suppliers. The business is highly cash-generative and continues to operate without external financial debt, a position considered appropriate given the lease obligations inherent in our business model.

Further details of the Board's work can be found in the Governance and committee sections of the annual report.

Dividend

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

In line with its progressive dividend policy the Board intends to recommend at the Annual General Meeting a final dividend of 21.5 pence per share (2015: 21.2 pence), giving a total ordinary dividend for the year of 31.0 pence (2015: 28.6 pence), an increase of 8.4 per cent.

Looking ahead

The Board recognises the need to engage with, and balance the interests of, many different stakeholders including customers, employees, pensioners, suppliers and shareholders. There is an overriding priority to maintain and enhance the competitiveness of the business in order to equip Greggs for long-term sustained success.

In the short term we face a period of greater economic uncertainty and increased pressure from cost inflation. We have highlighted the changes necessary to support the ongoing strategic realignment of the business, including the major investment programme under way to grow our supply chain. This will involve some difficult changes for some of our colleagues, as detailed in the Chief Executive's report, but is essential to support the long-term competitiveness of the business.

Greggs is a strong business with a great team. I am confident that we can build on our recent success and make further progress in the year ahead.

Ian Durant
Chairman

28 February 2017

Making progress with renewed focus



In 2016 we delivered another strong performance as we continued on our journey to transform Greggs from a traditional bakery business into a modern, attractive food-on-the-go retailer. Our product offer is evolving to meet the changing needs of our customers and our shop estate and service levels have benefited from significant investment. We have made good progress in the modernisation of our systems and processes and have commenced the investment programme that will transform our supply chain capability and increase capacity to support our ambitions for shop growth.

Financial performance

Total sales grew to £894.2 million in 2016, up 7.0 per cent. Within this company-managed shop like-for-like sales grew by 4.2 per cent.

Underlying operating profit, excluding property profits and exceptional items, grew by 8.6 per cent to £78.1 million (2015: £71.9 million). Pre-tax profit (including exceptional items) grew by 2.9 per cent to £75.1 million.

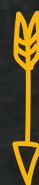
Market background: Growing food-on-the-go market

The overall market for food-on-the-go continued to be favourable during 2016, with growing consumer disposable income supporting demand despite uncertainty in the economic outlook. Customer footfall remained challenging in a number of shopping locations, supporting our strategy of progressively reducing our dependence on general shopping activity through alternative shop location and enhancing our offer to meet customers' needs at different times of the day. The market for food-on-the-go remains highly competitive but we saw like-for-like sales and transaction growth throughout 2016, demonstrating the strength of the Greggs brand, its relevance and our quality, value and differentiated offer.

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

Our strategic plan, first announced in 2013, set out to show that Greggs could be a winning brand in the highly competitive food-on-the-go market. Our business has been transformed in that time delivering an unbroken record of positive like-for-like sales and new levels of profit. It is now time to set a higher aspiration for the business, our purpose being to **make good freshly prepared food accessible to everyone**, with the aim of becoming the **customers' favourite for food-on-the-go**.

GREAT TASTING, freshly prepared food



'Everyday tastes good' because...

We encourage healthier food-on-the-go choices. That's why in 2014 we introduced a Balanced Choice range of products which now accounts for more than 10 per cent of sales.

It includes a wide selection of freshly prepared sandwiches, wraps, salads, yoghurts, delicious hot soups, porridge pots and freshly baked savouries.

The introduction of our Balanced Choice range has led to the overall fat content of our sandwiches dropping by 12 per cent and salt by 16 per cent with no impact on flavour.

It has also helped to change people's perceptions of the brand. In the latest brand study from the Greggs Brand Tracker (April 2016), 38 per cent of customers indicated a belief that Greggs do sell healthy options – a rise of 13 percentage points since 2010.



Customer health



For this next phase we have refreshed our plan to reinforce our commitment to putting the customer at the heart of our strategy – it has four key pillars:

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

These pillars are all supported by our long-standing approach to conducting our business in a responsible manner, and in doing so making a positive impact on people's lives.

Delivering our strategy

1. Great tasting freshly prepared food

Greggs is a strong and trusted brand and we draw on our heritage in fresh bakery to compete successfully in the food-on-the-go market. The Greggs product offer is differentiated by the way we freshly prepare food each day in our shops and by offering outstanding value for money for good quality, great-tasting food-on-the-go.

Making good freshly prepared food accessible to all income levels is embedded in our core purpose as a brand, with outstanding value meal deals setting us apart from the competition. We maintained the price of our breakfast meal deal for the seventh year running and saw increased participation in our range of all-day meal deals offering any savoury or sweet product plus any hot drink.

We have continued to make improvements to our product ranges that have helped drive positive like-for-like sales growth for 13 consecutive quarters.

Breakfast

This continues to be the fastest growing part of our trading day, linked predominantly with customers travelling, thereby lessening our dependence on general shopping footfall. The value of our breakfast meal deal remains market-leading and we have successfully built on this to offer greater menu choice, encouraging increased spend and visit frequency.



BEST customer experience

'Everyday tastes good' because...

We share our success with the people around us, choosing to help charities that our customers and people care about. That's why we continue to donate at least one per cent of our pre-tax profits to the Greggs Foundation and fundraise all year round for this great charity.

In 2016 fundraising in our shops and bakeries totalled £502,116, including £99,205 raised from the sale of our Jammy Heart Foundation Biscuit.

The money raised by the carrier bag charge in our shops is also donated to the Greggs Foundation, who make sure that this new source of funds benefits grassroots environmental projects in the areas where the monies were collected. In 2016 we distributed over £715,000 to 286 different organisations to improve their environment #greenerwithgreggs.

In 2017 the Greggs Foundation celebrates its 30th birthday. Since it was founded, it has given over £23 million to support the local communities that we serve.



Community

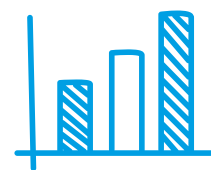


Hot drinks

Our reputation for great tasting coffee continues to grow both alongside our breakfast offer and, increasingly, as an accompaniment to food at any time of the day. 'Any hot drink' features across our meal deal offers and is proving increasingly popular. Significant investment in additional coffee machines is driving speed of service and, as our reputation in this category builds, we are successfully extending choice in our coffee options.

Balanced Choice

Demand for healthier choices in food-on-the-go continues to grow and our Balanced Choice range, offering fewer than 400 calories and good nutritionals, has been growing to match. Sales last year exceeded £100 million showing how our reach as a brand can have real impact in encouraging people to make healthier food-on-the-go choices. In the summer we built on our early success in sandwiches and 'no added sugar' drinks by launching a range of freshly prepared salads followed by a new range of savoury bakes in the autumn. Alongside these developments we extended the availability of fresh fruit, freshly prepared yoghurts, fruit and nut snacks and our first gluten-free products.



COMPANY-MANAGED SHOP
LIKE-FOR-LIKE SALES GROWTH

4.2% 

Hot food

This is another area of growing customer demand where we are investing in our capability to offer choice and speed of service. Hot sandwiches have proved particularly popular and we have invested in additional ovens in response to demand. This opens up opportunities for menu development which last year included burritos. Hot soup has been another source of growth lending itself well to full-flavoured Balanced Choice development.

Good food

Customers increasingly care where their food comes from. Because we make the majority of the food we sell ourselves, we are well placed to reassure customers that we deliver food they can trust. As a large-scale food manufacturer buying base ingredients, we are one step closer to the source than many of our competitors who buy finished products. We are investing more in telling our story to customers, extending our association with Fairtrade, promoting our Good Egg award, committing to sustainable tuna fishing and gaining accreditation in animal welfare.

Alongside this we are setting out to lead the food-on-the-go sector in eliminating or reducing unnecessary ingredients including salt, fat and sugar. In addition, we want our customers to be able to make informed choices and are the only major food-on-the-go brand providing full traffic light nutritional information on all products via our website.

Looking ahead

We have a strong pipeline of new product developments planned for 2017, offering more choice in growth areas while making sure that we continue to deliver a great customer experience with our traditional best-selling favourites.

2. Best customer experience

Investing in service

Great products alone will not succeed in food-on-the-go without great customer service. Our busy customers demand convenience with fast and friendly service and we continue to invest to improve in these areas.

Extended opening hours, particularly early in the morning and on Sundays, are meeting increased demand as our popularity for food-on-the-go grows. Investment in coffee machines, hot food ovens and new systems to free up more staff time are all contributing to our speed of service. Working in a Greggs shop can be very demanding so we rely on great people to deliver friendly service under pressure. Making Greggs a great place to work is key to a great customer experience and we are investing in training and systems to help us release time for customer-facing activities.

Alongside our internal measures used to reward teams who deliver great standards we were pleased to be ranked best in sector and 6th overall in the Institute of Customer Service's January 2017 Customer Satisfaction Index.

Greggs Rewards

The latest release of our award-winning mobile customer loyalty scheme allowing fully flexible payment has created a step change in customer participation. Customer data capture is now at a level that allows us to analyse behaviour and develop targeted marketing campaigns. We have recently appointed our first Customer Director with experience in digital multi-channel marketing who will lead development of our capabilities in this area.

Greggs Delivered

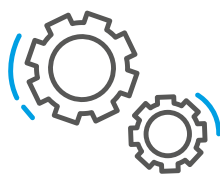
Food-on-the-go delivery is a growing market channel offering growth potential for Greggs by targeting the workplace sector. A pilot lunchtime delivery service targeted at offices has been launched in trial locations from which we intend to learn and grow. Whilst we do not see an opportunity in home delivery, we do believe that a smartphone-based order and collect service for customers offers future opportunity.





COST SAVINGS

£7.1m



PROCESSES AND SYSTEMS CHANGE

3 elements successfully delivered

Looking ahead

Further investment this year in new systems and process improvement will deliver additional gains, making shop operations simpler and supporting improved service levels. Rapid growth in Greggs Rewards recruitment will see this become an increasingly important source of customer insight and marketing opportunities.

Building experience with customer delivery will enable us to develop this channel with the initial aim of converting our existing lunchtime platter business to a digital platform.

Estate changes and refurbishments

We continue to see opportunities to increase our estate to substantially more than 2,000 shops and in 2016 we opened 145 new shops (including 56 franchised units) and closed 79, growing the estate to 1,764 shops trading as at 31 December 2016. At the end of 2016 we had 157 franchised shops operating in travel and other convenience locations, with a particular focus on motorway services and petrol forecourts. We expanded our presence in Northern Ireland in the year, opening seven company-managed shops and two franchised units, bringing our total shop numbers there to 10 at the end of 2016.

We completed 208 shop refurbishments during the year and in total 92 per cent of our shop estate now operates in a food-on-the-go format. The results of our refurbishment programme continue to be strong, both in terms of return on investment and the repositioning of the Greggs brand as a contemporary place to buy and eat food-on-the-go. In the year ahead we plan to refurbish another 200 shops, completing the conversion of our legacy bakery shops and starting to refresh older food-on-the-go shops to the latest look and facilities.

In 2017 we expect to open 140-150 shops, including further development of our franchise partnerships, and to close 40-50 shops. We will continue to relocate shops to rebalance our estate, increasing our presence in travel, leisure and work-centred catchments. In 2013 only 20 per cent of our estate was located in these location types and by the end of 2016 this proportion had risen to 30 per cent.

3. Competitive supply chain

In March 2016 we announced a major £100 million programme of investment to support growth in shop numbers and reshape our supply chain in order to compete more effectively in the food-on-the-go market. The first phase of this programme involves the closure of three bakeries before going on to invest in our remaining supply sites to create centres of excellence in manufacturing and distribution.

In 2016 we successfully opened our new distribution centre in Enfield and closed both our Twickenham and Sleaford bakeries. Good progress was also made with the extension of our bakery in Glasgow, enabling us to plan for the closure of our Edinburgh bakery in the second quarter of 2017.

Alongside this work we have undertaken detailed planning for the subsequent investment phase across our remaining bakery sites. In January 2017 we communicated our proposals to staff at each of our sites, including the planned impact of consolidating our manufacturing operations. Overall our expansion plans will create thousands of new roles in retail and distribution operations, but will result in fewer roles in manufacturing. We have therefore entered into consultation with trade unions and employee representatives over the details of these proposals.

Our investment programme will create increased capacity and efficiency in shop distribution to support substantial shop growth alongside improved quality and efficiency in bakery manufacturing by centralising production. This is a complicated investment phase, transforming the use of space and equipment across our bakery network and is expected to take approximately two years to implement.

Strategic decisions of this magnitude impacting jobs are always difficult and I am grateful for the contribution and professionalism of our teams who have been making these changes whilst maintaining service standards to our shops.

Once implemented this new supply chain platform will substantially improve product quality, our competitiveness and, alongside system investment, will complete our transformation from traditional bakery to food-on-the-go. This is our largest ever investment in our supply chain, reaffirming our strategic commitment to the competitive advantage offered through vertical integration and delivering an attractive return on investment.

4. First class support teams

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

Last year we successfully deployed SAP Finance as the core platform for integrated system development, and went on to pilot central forecasting and replenishment in trial shops in the second half of the year. The roll out of central forecasting and replenishment will replace shop-based ordering in 2017 and will be our largest ever new system roll out.

Our business change programme team have now moved on to plan for the next stage of system development, centralising logistics and manufacturing to replace our current devolved local bakery solutions. We are aiming to launch pilots for both logistics and manufacturing by the end of 2017 with roll out to other sites in 2018. In addition to this core activity our teams have successfully deployed supporting SAP modules in procurement, product lifecycle management and human resource management, which together are transforming our working practices and effectiveness.

Having a positive impact on people's lives

Greggs has a long-standing tradition and reputation as a socially responsible business and as such we want our actions to **have a positive impact on people's lives**. This ambition covers a broad range of stakeholders and is focused on five areas:

- Customer health – We encourage healthier food-on-the-go choices.
- Responsible sourcing – We care about where our ingredients come from.
- Community – We share our success with the people around us.
- Environment – We aim to use energy efficiently and minimise waste.
- People – We are committed to creating a great place to work.

These ambitions are championed separately but embedded in the core strategic pillars of our business plan. In 2016 we made further improvements in all areas and were pleased to achieve an increase to a 'four star' rating in the Business In The Community CR index.



COMPETITIVE supply chain

'Everyday tastes good' because...

We use energy efficiently and minimise waste. That's why Greggs Environmental Management System has been certificated to the ISO 14001:2015 standard.

This certification means that we have the systems and processes in place to support our commitment to finding ways to reduce our impact on the environment, which is a key part of our social responsibility strategy.

Our external auditors commented that "Greggs should be really proud of what they have achieved. It's quite unusual for companies in their position to go for certification across their entire Company just because they believe 'it is the right thing to do' – a huge achievement and one which should not be under-estimated."



Environment

FIRST CLASS

support teams

'Everyday tastes good' because...

We are committed to creating a great place to work. That's why we are strong advocates of equality, diversity and inclusion.

We believe gender equality should be treated like any other business priority, with a clear plan and an objective in place. The completion of the National Equality Standard sits as an objective on the front page of our business plan and a three-year strategy to achieve this is in place.

From a gender equality point of view the plan involves supercharging the brilliant talent Greggs already has in the business through the delivery of our 'Female Career Development Programme' and we are proud of the fact that:

- Almost half of our management population is female.
- One of the four most senior retail managers is female.
- Of the eight Board posts, three are held by women.

In 2016 Roger Whiteside demonstrated Greggs commitment to the gender equality agenda by joining the Women's Business Council.



People



Customer health

Customers are increasingly aware of our Balanced Choice range and in 2016 we introduced traffic light labelling on our website and app. The Institute of Grocery Distribution has recognised our Balanced Choice range as having a positive impact on the health and wellness of customers and we will continue to extend the range of products that meet this need. We recently launched a 'healthier shop' format at New Cross Hospital in Wolverhampton, designed to meet NHS England, PHE and DEFRA guidelines.

Responsible sourcing

All the tea, coffee, hot chocolate, sugar sachets, orange juice, apple juice and bananas we sell are certified Fairtrade. We source our prawns and tuna from sustainable sources and have recently moved up to 'tier two' in the Business Benchmark on Farm Animal Welfare. All of our manufacturing sites have achieved top marks on v7 of the British Retail Consortium's global standard for food safety.





We have made good progress in the modernisation of our systems and processes and have commenced the investment programme that will transform our supply chain capability and increase capacity to support our ambitions for shop growth.



Community

We continue to share our success with the local communities in which we operate. In 2016 this included doubling the amount of end-of-day food that we donated to good causes and continuing to support the work of the Greggs Foundation. Staff and customers raised £613,000 for the Foundation in 2016 and this, combined with donations from the Company and the proceeds of carrier bag charges, enabled the Greggs Foundation to distribute £2.8 million to support a wide range of initiatives that improve the quality of life in our local communities. These included the award-winning Greggs Breakfast Club programme which, with support from 72 partner organisations, now provides five million free wholesome breakfasts each year to children in more than 400 primary schools.

Environment

We hold the Carbon Trust Standard in recognition of our work on carbon efficiencies and our Environmental Management System was certificated to ISO 14001 standard in 2016. We continue to trial technologies that could help to reduce our carbon footprint even further in the years ahead.

People

We pay all of our people more than the National Living Wage, including those under the age of 25. We share 10 per cent of our profits with employees and our people will be sharing a record £8.8 million as a result of our strong performance in 2016.

Our Employee Opinion Survey engagement score has increased by five percentage points over the last two years; 80 per cent of our people say they feel committed to Greggs and to helping us achieve our goals. However, we are not complacent and in the year ahead will be working towards achieving the National Equality Standard as part of our commitment to make Greggs an even better place to work.

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

Outlook for 2017

The year has started in line with our expectations, with company-managed shop like-for-like sales in the eight weeks to 25 February 2017 up by 2.0 per cent, and total sales up 5.8 per cent. As expected, the year to date position has been impacted by the timing of the New Year public holiday, which fell outside of the comparative period in 2016. Excluding the effect of this, company-managed shop like-for-like sales have grown by 2.9 per cent in weeks two to eight of the current year.

The UK consumer outlook is more challenging than we have seen in recent years, with industry-wide pressures emerging in commodities as well as labour costs. As previously stated we expect this to have a modest impact on margins in the short term.

2017 will be another busy year of change as we continue to progress our investment in better systems and the transformation and development of our supply chain. Over the medium term we are confident of making further progress as we implement our plan to grow Greggs as a contemporary food-on-the-go brand.

Roger Whiteside Chief Executive

28 February 2017

OUR STRATEGY

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



GREAT TASTING, freshly prepared food

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

Turn to **page 21** to find out more.



BEST *customer experience*

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

Turn to **page 22** to find out more.



We want our business to have a

positive



COMPETITIVE supply chain

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

Turn to **page 25** to find out more.



FIRST CLASS support teams

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

Turn to **page 26** to find out more.

impact on people's lives



Find out more on page 28





'Everyday tastes good' because...

We encourage healthier food-on-the-go choices. That's why...

- Our Balanced Choice range was recognised by the Institute of Grocery Distribution (IGD) as **having a positive impact** on the health and wellness of customers.
- We created our own range of no-added sugar, low-calorie soft drinks.
- We have reduced the salt in our iconic favourites, without compromising the taste!
- We opened our healthier shop format at New Cross Hospital in Wolverhampton and achieved joint second place in a league table compiled by health campaigners, which ranks high street brands in order of how well they meet NHS England's guidelines for food sold in hospitals.
- We make our nutritional information easy to find and understand and were the first UK food-on-the-go brand to introduce traffic-light labelling on its website and app.



Responsible Sourcing

We care about where our ingredients come from. That's why...

- All the tea, coffee (excluding decaf), hot chocolate, sugar sachets, orange juice, apple juice and bananas we sell are certified Fairtrade.
- All our milk and cream is from UK cows.
- We hold the Good Egg award from Compassion in World Farming because all the whole eggs we buy are free range.
- All our tuna is sourced from suppliers utilising sustainable fishing methods.
- We only use palm-derived fats and oils that are certified as sustainable.
- We were acknowledged for our leadership on farm animal welfare in BBFAW's 2016 report and our rating has moved from Tier 5 to Tier 2 over the last three years.

positive impact on people's lives



GREAT TASTING, freshly prepared food



MAKING SURE 'EVERYDAY TASTES GOOD' FOR OUR CUSTOMERS

WHILE WE BELIEVE OUR ICONIC SAUSAGE ROLL WILL NEVER BE BEATEN, WE WORK HARD TO MAKE SURE OUR RANGE MEETS OUR CUSTOMERS' NEEDS BY CONTINUING TO DEVELOP GREAT TASTING, FRESHLY PREPARED FOOD THAT OUR CUSTOMERS CAN TRUST AT AFFORDABLE PRICES – MAKING SURE THERE IS ALWAYS SOMETHING NEW TO EXCITE THEM AND THAT 'EVERYDAY TASTES GOOD'.

Progress made in 2016

We started the year by broadening our Fairtrade coffee offer and the introduction of the Flat White proved to be a real crowd-pleaser. We continued to improve our product range by adding more Balanced Choice options to our menu – freshly prepared salads and market leading, lower-calorie bakes went down well with customers, as did our gluten-free mini bites.

Our hot food range came into its own during the colder months, with growth in our soup and heat-to-eat sandwich categories, but breakfast remains our fastest-growing part of the day thanks to our great value

breakfast deals. While outstanding value for money continues to be a unique selling point for the Greggs brand, we know that our customers increasingly care about where their food comes from and we remain committed to sourcing food responsibly – by the end of 2016, all our tuna came from sustainable sources.

Plans for 2017

We will continue to develop products in line with changing food trends, making sure we strike the right balance between innovation and tradition, nutrition and indulgence, value and values and will invest in telling this story to our customers.

NEVER THOUGHT I'D SAY THIS BUT
@GREGGSOFFICIAL HAS BECOME MY FAVOURITE
PLACE FOR LUNCH! BALANCED CHOICE
FLATBREADS AND SALADS ARE SO GOOD!



Emily (@emwhitehead)



BEST customer experience

MAKING EVERY DAY A GREAT DAY FOR OUR CUSTOMERS

WE'VE BEEN WORKING HARD TO TAKE GREGGS TO WHERE OUR CUSTOMERS ARE, MAKING SURE OUR SHOPS ARE OPEN WHEN THEY NEED THEM AND THAT WE OFFER MODERN, ATTRACTIVE SHOPPING ENVIRONMENTS. WE DELIVER FAST AND FRIENDLY SERVICE AND ENJOY MAKING EVERY DAY A GREAT DAY FOR OUR CUSTOMERS BY REWARDING THEM FOR THEIR LOYALTY.

Progress made in 2016

We invested in customer service by continuing to extend trading hours (over 80 per cent of our shops are now open by 7am Monday-Friday!) and providing shop teams with new equipment and systems, freeing up more time for them to focus on our customers. The re-launch of Greggs Rewards, our digital loyalty scheme, introduced more flexible payment options, removed the need to pre-pay and integrated our competitive coffee loyalty offer – making it even easier for customers to choose Greggs. We were delighted to move from 25th to 6th place on the Institute of Customer Service's January 2017 Customer Satisfaction Index. The launch of our click and deliver trial (Greggs Delivered) can't go without a mention; customer interest on social media showed us that we are heading in the right direction.

With ambitions to grow to over 2,000 shops nationwide we opened 145 new shops and closed 79, growing the estate to 1,764 shops. At the end of 2016 we had 157 franchised

shops operated by partners in travel hubs and other convenience locations and had successfully launched Greggs in Northern Ireland. We continued to invest in the transformation of our shop estate, converting 208 shops to our latest 'bakery food-on-the-go' format helping to attract new customers and increase sales.

Plans for 2017

Speed of service is one of our key strengths and we plan to get even faster, particularly during peak hours, by continuing to invest in equipment and systems. Greggs Rewards will remain a priority as understanding our customers' needs is key to us becoming the **customers' favourite for food-on-the-go**. We will look to roll out Greggs Delivered to further trial locations, with the aim of growing our lunchtime platter business. We will continue to increase shop numbers and improve shopping environments – in 2017 we expect to open between 120-130 new shops (including 40-50 with franchise partners) and refit 200 existing ones.



GREGGS REWARDS APP IS
MY NEW FAVOURITE THING.

Laura (@LauBuckle_)





'Everyday tastes good' because...

We share our success with the people around us. That's why...

- We donate at least one per cent of our pre-tax profits to the Greggs Foundation.
- We funded our first Breakfast Club in 1999 and have helped the Greggs Foundation to develop a sustainable partnership model for their Breakfast Club Programme.
- We recently celebrated our 10th partnership anniversary with BBC Children in Need and have raised almost £8 million for the charity during that time.
- Based on our 2016 Employee Opinion Survey, 90 per cent of Greggs employees are proud of the work that the Greggs Foundation does in our local communities.

positive impact on people's lives



Community



'Everyday tastes good' because...

We aim to use energy efficiently and minimise waste. That's why...

- 10 of our manufacturing sites have photo voltaic panels on their roofs, which in 2016 generated over 923,015 kWh of electricity.
- We install energy-efficient LED bulbs and drinks fridges with doors in all new and refitted shops.
- 99.9 per cent of our manufacturing site waste is diverted from landfill.
- Our shops redistribute as much unsold food as possible through our Food Donation Programme.
- We use the money raised by the carrier bag charge to support the important environmental initiatives delivered by both national organisations such as Keep Britain Tidy and Surfers Against Sewage, as well as grassroots projects #greenerwithgreggs.



positive impact on people's lives 



Environment



COMPETITIVE

supply chain

PROVIDING THE BEST VALUE TO OUR CUSTOMERS

BECAUSE WE OWN OUR SUPPLY CHAIN AND MAKE OUR OWN BAKERY PRODUCTS, WE PROVIDE THE **BEST VALUE** TO OUR CUSTOMERS AND CAN DELIVER UNIQUE PRODUCT INNOVATIONS, MEANING 'EVERYDAY TASTES GOOD' AT GREGGS. OWNERSHIP OF OUR DISTRIBUTION CENTRES AND DELIVERY FLEET MAKES US MORE COMPETITIVE AND ALLOWS US TO SUPPORT SHOP GROWTH WITH A FIRST CLASS SERVICE.

Progress made in 2016

As part of our plan to grow Greggs and transform it from a decentralised traditional bakery business into a centrally-run modern retailer, capable of competing effectively in the dynamic food-on-the-go market, we announced a £100 million investment programme to reshape our supply chain in March 2016.

Plans have progressed well and in October we opened our largest ever new shop distribution centre in Enfield. With the capability to supply 450 shops this allowed us to close our bakery at Twickenham in the fourth quarter as planned. In Scotland we started work on the extension of our Glasgow bakery, which will enable us to close our Edinburgh bakery in the second quarter of 2017. These

changes, involving impact on jobs, have been challenging for all concerned and the professional manner in which this complex and difficult process was carried out is a credit to all of our colleagues involved.

Plans for 2017

The next phase of our supply chain investment programme will involve the creation of centres of excellence in manufacturing and distribution to support shop growth beyond 2,000 shops. Our new-look supply chain, alongside our new and improved systems will complete our transformation from traditional bakery to food-on-the-go, allowing us to deliver consistent product quality and unique product innovations, ensuring 'Everyday tastes good' for our customers.



THE GREGGS BREAKFAST DEAL IS
AMAZINGLY GOOD VALUE

amy (@_amyscott1)



FIRST CLASS *support teams*

A FULLY-INTEGRATED APPROACH TO CUSTOMER SERVICE

AS WE CONTINUE TO MAKE SIGNIFICANT PROGRESS IN CENTRALISING OUR BACK OFFICE SYSTEMS, INTRODUCING THE NEW WAYS OF WORKING NEEDED TO COMPETE MORE EFFECTIVELY AS A CENTRALISED BRAND, WE WILL MAKE SURE WE HAVE WELL-TRAINED PEOPLE PROVIDING GREAT SERVICE TO THEIR COLLEAGUES, TO ENSURE WE PROVIDE THE BEST CUSTOMER EXPERIENCE POSSIBLE FOR OUR CUSTOMERS.

Progress made in 2016

Our investment in new systems and processes is improving our effectiveness and efficiency. In 2016 we delivered a number of significant elements of our business change programme including the implementation of SAP Finance. This has provided the foundation on which we are building centralised systems across procurement, product lifecycle management and shop ordering. Towards the end of the year we trialled our new shop ordering system and launched a new recruitment website to improve the experience of job seekers and help us better match candidates to available vacancies.

In 2016, we also moved into our new head office at Quorum Business Park in Newcastle, bringing together central functions and creating a better working environment.

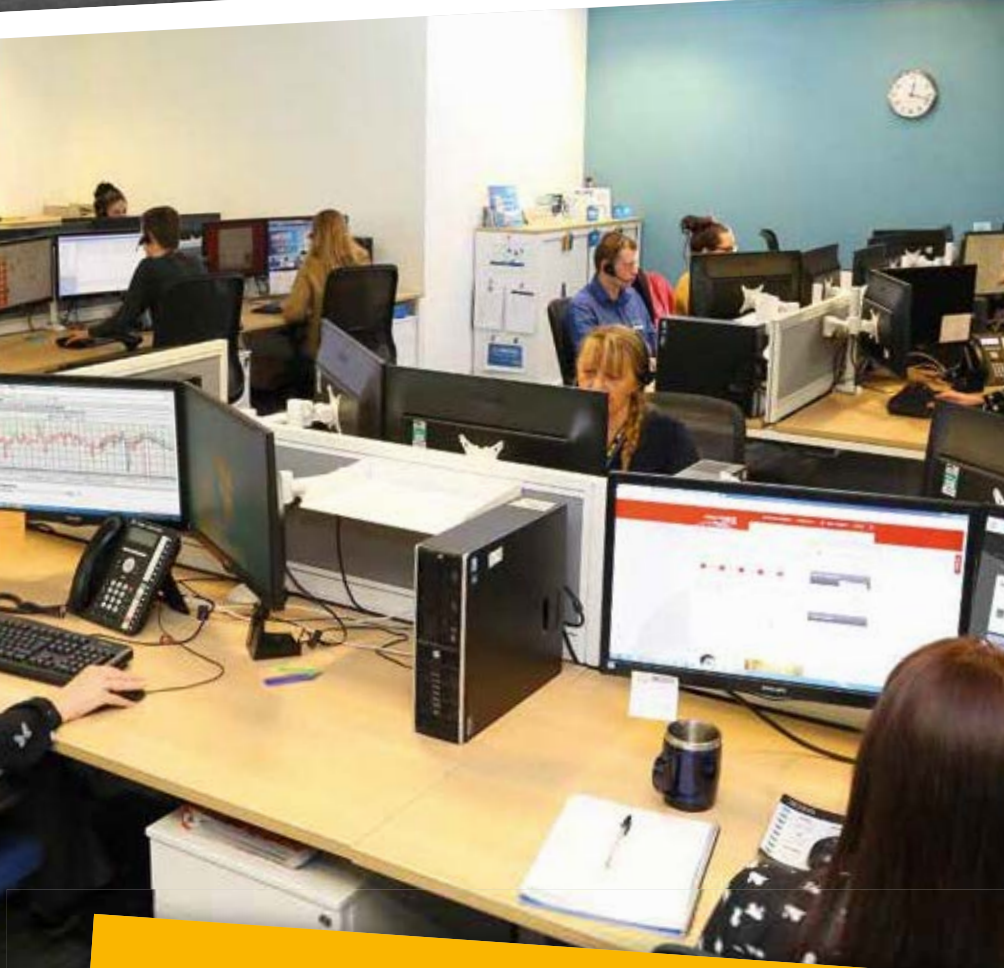
Plans for 2017

Our priority for 2017 is to successfully implement our new shop ordering system across the business (this will be our biggest ever new system roll out!). Alongside this we are designing the SAP solution for our supply chain, covering manufacturing, warehousing and distribution operations and plan to have this system live at two sites by the end of 2017.

@GREGGSOFFICIAL THE WAY GREGGS HANDLES
THINGS IS GOING ABOVE AND BEYOND
CUSTOMER CARE! SO SO GOOD



Alice Cleveland (@AliceClevelandd)



'Everyday tastes good' because...

We are committed to creating a great place to work. That's why...

- We invite team members to join the Greggs Share Incentive Plan and offer a Share Save Scheme.
- We have created a Career Pathways Programme to develop our people.
- We have developed an online tool to support the development and training of our brilliant people.
- We are always looking for opportunities to promote equality (we run a Female Career Development Programme) and learn from others (our CEO is a member of the Women's Business Council).
- We offer a Greggs Apprenticeship Programme.
- We believe in giving people a fresh start and have developed programmes to support ex-military, the formerly long-term unemployed and ex-offenders.
- Our Employee Opinion Survey engagement score has increased by five per cent over the last two years.

positive impact on people's lives



People

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



**MAKING SURE
'EVERYDAY TASTES GOOD'
FOR THE PEOPLE WHO SHOP
WITH US, WORK FOR US, SUPPLY
US OR LIVE NEAR US.**

WE'VE BEEN ON A JOURNEY TO INTEGRATE SOCIAL RESPONSIBILITY (SR) INTO OUR BUSINESS STRATEGY. IN 2015 WE REFRESHED OUR SR FOCUS AREAS AND ANNOUNCED CLEAR COMMITMENTS AGAINST EACH ONE. THESE SR PRIORITIES ARE OUTLINED BELOW AND ILLUSTRATED BY THE CASE STUDIES CHOSEN TO HELP BRING TO LIFE BOTH THE CHIEF EXECUTIVE'S REPORT AND THE STRATEGY IN ACTION SECTIONS OF THIS REPORT.

 Customer health	We encourage healthier food-on-the-go choices
 Responsible sourcing	We care about where our ingredients come from
 Community	We share our success with the people around us
 Environment	We aim to use energy efficiently and minimise waste
 People	We are committed to creating a great place to work

In addition, our SR targets have been repositioned as non-financial key performance indicators (KPIs), which now sit alongside our financial KPIs and can be found on pages 36 to 38.

We believe these important changes remove the need for a separate SR report and pave the way for us to fully integrate SR into our business planning and reporting over the coming years.

We're extremely proud of the progress that we've made with our FTSE4Good and Business in the Community accreditations, moving from two stars to four on BITC's Corporate Responsibility Index over the last three years.



**HELP FROM @GREGGSCHARITY MADE
OUR NEW HOME IN #NORTHUMBERLAND
POSSIBLE. NOW WE CAN HELP TWICE
AS MANY CHILDREN WHO HAVE #AUTISM!
THANK YOU!**

Toby Henderson Trust (@AutismTTHT)



A strong performance and further strategic progress.



In 2016 we delivered another strong financial performance, increasing the rate of sales growth whilst controlling costs well. Continued good cash generation is supporting our programme of investment for further growth whilst allowing us to also increase dividends to shareholders.

	2016 £m	2015 £m
Revenue	894.2	835.7
Operating profit (excluding exceptional items and property profits)	78.1	71.9
Property profits	2.2	1.2
Operating profit (excluding exceptional items)	80.3	73.1
Operating margin (excluding exceptional items)	9.0%	8.7%
Finance expense	(0.0)	(0.1)
Exceptional items	(5.2)	0.0
Profit before taxation	75.1	73.0

Sales

Total Group sales for the 52 weeks ended 31 December 2016 were £894.2 million (2015: £835.7 million), an increase of 7.0 per Cent. Sales in company-managed shops with more than one calendar year's trading history (like-for-like) grew by 4.2 per cent to £777.2 million (2015: £745.6 million). We also saw like-for-like and total sales growth in our franchised shop estate.



We continue to see savings from our actions to make the business simpler and more efficient.



Profit

Operating profit before exceptional items was £80.3 million (2015: £73.1 million), a 9.9 per cent increase on an underlying basis. The result reflects good sales growth combined with actions to make the business simpler and more efficient, plus a higher than normal £2.2 million contribution from property disposals (2015: £1.2 million).

Pre-tax profit before exceptional items was £80.3 million (2015: £73.0 million). Including exceptional items pre-tax profit was £75.1 million (2015: £73.0 million).

Exceptional items

As noted in the Chief Executive's report, in 2016 we commenced the first phase of our major investment programme to reshape our internal supply chain. This involved the closure of our Twickenham and Sleaford bakeries in 2016, with Edinburgh due to close in 2017. As a result in 2016 we incurred £6.4 million of redundancy and other employment-related costs, asset write-offs and impairment charges and other costs arising directly as a result of the closure of the three sites.

These were partly offset by credits arising from the settlement of property and redundancy transactions treated as exceptional in prior years. The components of the net £5.2 million charge were as follows:

	2016 £m
Supply chain restructuring:	
– redundancy costs	4.1
– asset-related costs	1.9
– transfer of operations	0.4
Restructuring of support functions	0.4
Release of prior years' exceptional items:	
– dilapidations	(0.5)
– property provisions	(0.9)
– restructuring of support functions	(0.2)
Total exceptional items	5.2

In January 2017 we communicated proposals for the next phase of this programme, which will invest in greater distribution capacity across our remaining sites whilst consolidating our existing manufacturing operations. The total one-off cash exceptional costs of this major change programme are expected to be in the region of £25.0 million, as previously communicated. This includes £6.4 million charged in 2016 and we expect to charge a further £12.0 million in 2017 as a result of the proposals for the next phase of consolidation.

Any property gains resulting from the disposal of our sites in Twickenham and Edinburgh will also be treated as exceptional. Our Twickenham property has now been marketed and discussions with interested parties are ongoing.

Operating margin

Operating margin before exceptional items was 9.0 per cent (2015: 8.7 per cent). Including exceptional items operating margin was 8.4 per cent (2015: 8.7 per cent).

Within this, gross margin before exceptional items increased to 63.7 per cent (2015: 63.5 per cent) reflecting benign input cost conditions for most of the year, although these became inflationary in the fourth quarter. Including exceptional items gross margin was 63.2 per cent (2015: 63.5 per cent).

We continue to see savings from our actions to make the business simpler and more efficient. In 2016 we delivered savings of £7.1 million, slightly ahead of the targets we had set. Benefits were achieved through better procurement and as a result of investments made to simplify our operations across retail and supply chain. In 2017 we expect to make a similar level of progress as we see initial benefits from our supply chain restructuring and continue to invest in improved processes and systems.

As noted above, in 2016 we recognised gains on the disposal of freehold properties totalling £2.2 million (2015: £1.2 million) as a result of the sale of freehold shops on closure and the disposal of former office buildings. In 2017 we expect property disposal gains will be in the range of £0.5 to £1.0 million.

Financing charges

There was a net financing expense of £nil million in the year (2015: £0.1 million) reflecting finance income of £0.2 million and a £0.2 million charge in respect of the funding position of the defined benefit pension scheme. In the year ahead we expect to incur a financing expense of around £0.6 million relating to the net liability of the pension scheme at the end of the year. As discussed below the scheme's net liability increased substantially over the year as a result of market conditions.

Taxation

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

Excluding the effect of exceptional items the Group's underlying effective tax rate was 22.5 per cent (2015: 21.1 per cent). The overall tax rate for the year including exceptional items was 22.8 per cent (2015: 21.1 per cent). The effective rate primarily reflected reductions in the headline rate of corporation tax and the impact of the Group's share price on allowances for share scheme costs.

We expect the effective rate for 2017 to be around 21.25 per cent, the reduction from 2016 reflecting the lowering of the headline rate to 19 per cent with effect from April 2017. We expect the effective rate to remain around two per cent above the headline corporation tax rate going forward due, principally, to disallowed expenditure such as depreciation on non-tax-deductible qualifying properties and costs of acquisition of new shops.

Earnings per share

Diluted earnings per share before exceptional items were 60.8 pence (2015: 55.8 pence), an increase of 9.0 per cent. Basic earnings per share before exceptional items were 62.0 pence (2015: 57.3 pence). Including exceptional items diluted earnings per share were 56.7 pence (2015: 55.8 pence) and basic earnings per share were 57.8 pence (2015: 57.3 pence).

Dividend

The Board recommends a final ordinary dividend of 21.5 pence per share (2015: 21.2 pence). Together with the interim dividend of 9.5 pence (2015: 7.4 pence) paid in October 2016, this makes a total ordinary dividend for the year of 31.0 pence (2015: 28.6 pence). This is covered two times by diluted earnings per share before exceptional items in line with our progressive dividend policy. In July 2015 the Group paid a special dividend of 20.0 pence per share. Our policy on special distributions is outlined below under Cash flow and capital structure.

Subject to the approval of shareholders at the Annual General Meeting, the final dividend will be paid on 26 May 2017 to shareholders on the register on 28 April 2017.

Balance sheet

Capital expenditure

We invested a total of £80.4 million (2015: £71.7 million) on capital expenditure in the business during 2016. This included £42.6 million on 208 shop refurbishments and the opening of 89 new company-managed shops. We continued to invest in shop equipment to support further growth in sales of coffee and hot sandwiches, totalling £5.1 million, and also invested £5.7 million in our programme of process and systems improvement. Investment in our supply chain of £21.1 million included completion of the refurbishment of our new distribution centre in Enfield and the commencement of works to extend the capacity of our Glasgow site. Depreciation and amortisation in the year was £45.6 million (2015: £40.1 million).

In 2017 we plan capital expenditure of around £85 million. This will support continued growth and diversification of our shop estate and the next phase of investment in our supply chain (see below). We plan to refurbish around 200 shops in 2017 and expect to invest in c.110 new company-managed shops, with further openings funded by franchise partners.

Our proposed £100 million investment programme in manufacturing and distribution operations comprises £75 million of capital expenditure and £25 million of one-off cash-related change costs over a five-year period. In 2016 we invested £3 million of capital expenditure relating to this programme. In 2017 we expect to invest around £20 million, followed by c.£27 million in 2018 as we execute the most capital-intensive phase of the programme.

Working capital

Group net current liabilities increased to £28.8 million at the end of 2016 (2015: £20.6 million). Inventory levels were stable and receivables rose by £3.1 million in the year, principally as a result of growth in the number of franchised shops. The £14.8 million increase in current liabilities largely reflected a higher level of trade payables as a result of growth in the business, plus capital creditors and restructuring provisions resulting from the changes made to our supply chain in the year.

Pension scheme liability

The net liability shown on the balance sheet for the Company's closed defined benefit pension scheme has risen to £22.9 million (2015: £3.9 million). Despite appreciation of the scheme's assets in 2016 the present value of the expected liabilities has risen considerably as a result of significant falls in corporate bond yields, which are used to determine the discount rate applied. The scheme is due to undergo a full actuarial revaluation in April 2017.

Return on capital

We manage return on capital against predetermined targets and monitor performance through our Investment Board, where all capital expenditure is subject to rigorous appraisal before and after it is made. For investments in new shops we target an average cash return on invested capital of 25 per cent, with a hurdle rate of 22.5 per cent, over an average investment cycle of seven years. Other investments are appraised using discounted cash flow analysis.

The results of our refurbishment expenditure in the year were good, with 2016 investments delivering results ahead of our target. The performance of new shops was excellent, with prior year openings maturing well and newer shops making a very strong start. In the year ahead we will increase the rate of openings further, as long as we continue to see strong investment returns.

We delivered an overall return on capital employed (ROCE) for 2016 of 28.1 per cent excluding exceptional items (2015: 26.8 per cent). The stronger ROCE reflects the improved operating performance in the year as well as good capital investment returns.

Cash flow and capital structure

The net cash inflow from operating activities in the year was £117.6 million (2015: £103.7 million). At the end of the year the Group had net cash and cash equivalents of £46.0 million (2015: £42.9 million).

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

Looking forward we intend to maintain our progressive dividend policy, and, to the extent that we have material surplus capital within the Group, the Board would expect to return capital to shareholders. This was the case in 2015, when a distribution of £20 million was made through a special dividend. In 2017 we expect that cash flows will be sufficient to meet the Group's investment plans and pay ordinary dividends in line with our policy, whilst maintaining a year-end net cash position in line with our stated target.

Richard Hutton
Finance Director

28 February 2017

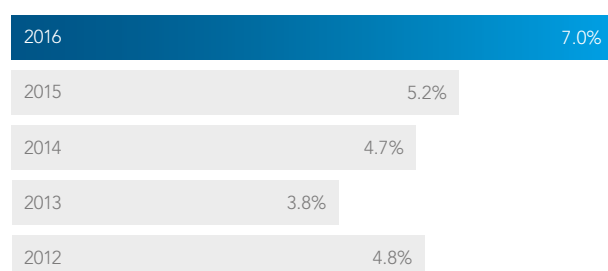
We use eight key financial performance indicators (KPIs) to monitor the performance of the Group against our strategy.

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

TOTAL SALES GROWTH:

2015: 5.2% ▲

7.0%

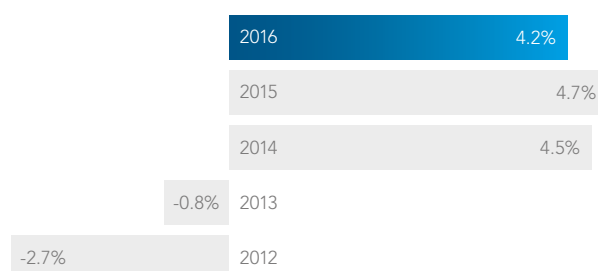


The percentage year-on-year change in total sales for the Group, adjusted for the impact of a 53-week year in 2014.

LIKE-FOR-LIKE SALES GROWTH:

2015: 4.7% ▼

4.2%

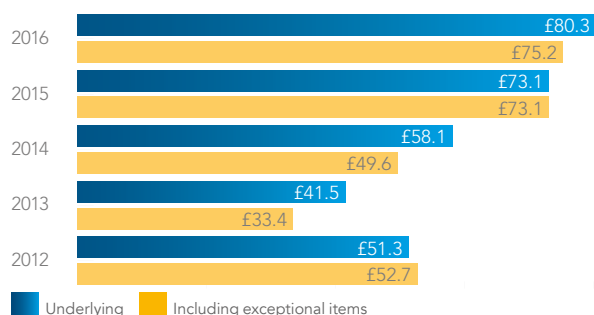


Compares year-on-year cash sales in our company-managed shops, excluding any shops which opened, relocated or closed in the current or prior year. Like-for-like sales growth includes selling price inflation and excludes VAT. The impact of shop refurbishment is included in like-for-like sales growth.

OPERATING PROFIT:

2015: £73.1M ▲

£80.3 million

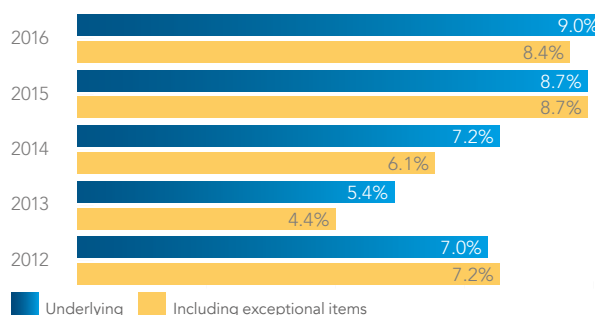


Reflects the performance of the Group before financing and taxation impacts and the underlying measure excludes any exceptional items arising in the year.

OPERATING MARGIN:

2015: 8.7% ▲

9.0%

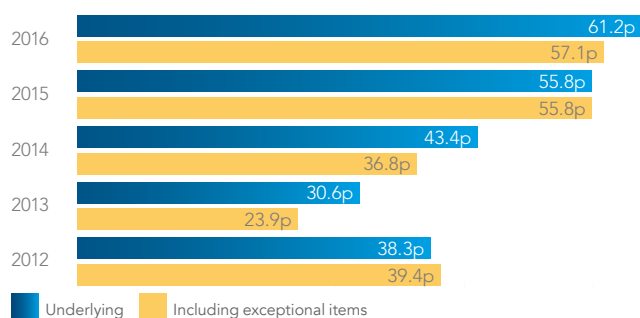


Shows the operating profit of the Group as a percentage of turnover. The underlying measure excludes any exceptional items arising in the year.

DILUTED EPS (PENCE):

2015: 55.8p ▲

61.2p



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

CAPITAL EXPENDITURE:

2015: £71.7M ▲

£80.4 million

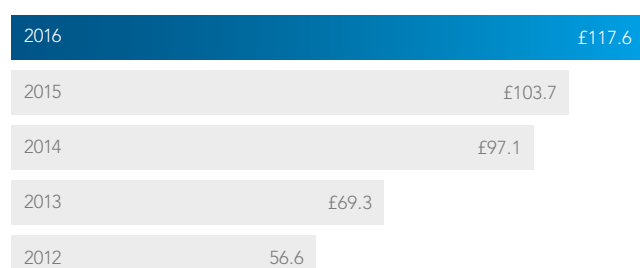


The total amount incurred in the year on investment in fixed assets.

NET CASH INFLOW FROM OPERATING ACTIVITIES:

2015: £103.7M ▲

£117.6 million

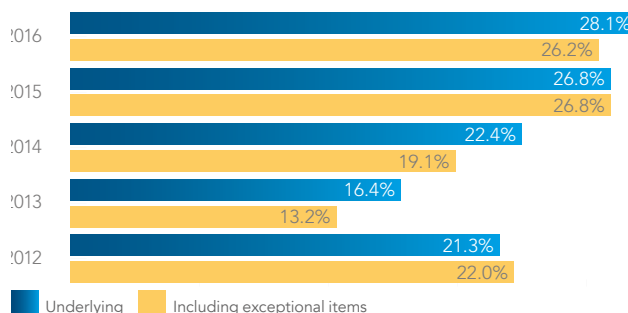


Operating profit adjusted for the impact of non-cash items and working capital movements.

RETURN ON CAPITAL EMPLOYED (ROCE):

2015: 26.8% ▲

28.1%



Calculated by dividing profit before tax by the average total assets less current liabilities for the year. The underlying measure excludes any exceptional items arising in the year.

We are on a journey to integrate social responsibility (SR) into our business strategy.

Part of that journey involves repositioning our SR targets as non-financial KPIs. Our non-financial KPIs have five areas of focus, with a clear commitment against each one. These commitments are delivered through a series of projects with measurable targets.

The Chief Executive is responsible for delivering the overall programme and Operating Board Directors have been assigned to be a champion for each of the areas – as illustrated opposite. This group meets quarterly to review progress at a steering group convened by the Company Secretary.

KPI	2016 Targets
 Customer health: <i>We encourage healthier food-on-the-go choices</i>	Increase Balanced Choice sales by at least £5 million Develop a structured Clean Label Plan to minimise the use of unfamiliar ingredients in our products Introduce a healthy children's meal menu
 Responsible sourcing: <i>We care about where our ingredients come from</i>	Only source tuna from 'FAD free', 'FAD entanglement free' or 'pole and line' methods of harvesting Develop a Field to Fork Policy for our fresh produce Achieve BRC Global Standard v7 at all bakery sites (certified as Grade A)
 Community: <i>We share our success with the people around us</i>	Extend the Greggs Breakfast Club Programme to 400+ schools, working with our partners Support the Greggs Foundation to donate more than £2 million through our fundraising activity Support the delivery of engaging nutritional education in schools
 Environment: <i>We aim to use energy efficiently and minimise waste</i>	Complete certification of our Environmental Management System to ISO 14001 Minimise the impact of climate change through the development and delivery of an engagement plan for our staff and customers Increase the amount of unsold food that we donate to good causes by at least 50% (based on 2015 result) Further develop waste management practices to ensure long-term focus on resource efficiency over and above recycling
 People: <i>We are committed to creating a great place to work</i>	Maintain our 2015 employee engagement target (Employee Opinion Survey) Ensure 30% of our volunteering days are matched to peoples skills and abilities Continue to engage colleagues with 'Superstar Service' business-wide Undertake a National Equality Standards audit, enabling a three-year plan to be developed to receive accreditation in 2019 Reduce reportable accidents per hours worked in retail by 5% Reduce reportable accidents per hours worked in our supply chain by 10% Increase the impact of our Fresh Start Programme by offering 450 job opportunities Further drive our service culture through continued focus on our employee suggestion scheme, 'Your Ideas Matter' to achieve a 100% response rate

Responsible	Chief Executive				
Accountable	Company Secretary				
Champions	Commercial Director	Commercial Director	Finance Director	Retail Director	People Director
Focus areas	Customer health	Responsible sourcing	Community	Environment	People
Our commitments	We encourage healthier food-on-the-go choices	We care about where our ingredients come from	We share our success with the people around us	We aim to use energy efficiently and minimise waste	We are committed to creating a great place to work

Status	2017 Targets
✓ ✓ ✓	Increase Balanced Choice sales by at least £10 million Implement our Clean Label Plan across our savoury and bread products
✓ ✓ ✓	Engage with supply chain to meet our Modern Slavery Policy obligations Develop a five-year strategy for cage-free egg ingredients
✓ ✓ ✓	Work with our partners to further extend our Breakfast Club scheme to 440 schools Support the Greggs Foundation to donate more than £2 million through our fundraising activity Evaluate and improve our Environmental Grants Programme
✓ ✓ ✓ ✓	Continue to develop our Environmental Management System to maintain our ISO 14001 accreditation across all of our operations Continue to review our operational activities to support a reduction of our carbon footprint intensity by a further 1% Increase the amount of unsold food donations by a further 50% (based on 2016 results)
✓ ✓ ✓ ✓ ✓ ✗* ✓ ✓	Drive activities to further improve employee engagement through flexible working Achieve third party accreditation for Balanced You, our health and wellbeing programme Further develop and deliver our online development tool across the business to enhance development opportunities for our people Successfully deliver our year one action plan to achieve National Equality Standard accreditation in 2019 Continue to drive health and safety engagement to reduce reportable accidents per hours worked in retail by 5% Continue to drive health and safety engagement to reduce reportable accidents per hours worked in our supply chain by 10%

*Although we failed to achieve our target, we did reduce overall accidents in our supply chain by over 5%, following on from our 28% reduction in 2015.

NON-FINANCIAL KEY PERFORMANCE INDICATORS CONTINUED

Carbon footprint

Our net carbon footprint for the 2016 financial year was 124,978 tonnes of carbon dioxide and equivalent gases (CO₂e), with an intensity of 140.76 tonnes of CO₂e per £million turnover. This represents a 5.7 per cent improvement on our 2015 result.

Global GHG emissions data

In line with Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, we are reporting on our greenhouse gas (GHG) emissions as part of our annual strategic report. Our GHG reporting year is the same as our financial year from 3 January 2016 to 31 December 2016.

		Current reporting year 2016 (tonnes of CO ₂ e)	Comparison year 2015 (tonnes of CO ₂ e)
Scope 1	Combustion of fuel & operation of facilities	33,010	31,509
	Fugitive emissions from refrigeration	10,195	4,360
Scope 2	Electricity purchased for own use (including PV-generated electricity)	82,153	89,375
GROSS emissions	Total Scope 1 and 2 CO ₂ e emissions	125,358	125,244
NET emissions	Total emissions excluding PV-generated electricity	124,978	124,776
NET intensity measure	Tonnes of CO ₂ e per £ million of turnover adjusted to account for use of renewable energy	140.76	149.3

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' Reports) Regulations 2013. These sources fall within our operation's control and financial control boundaries. We do not have responsibility for any emission sources that are outside of our operational control.

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

The 2016 emissions are verified by the Carbon Trust as part of the review of our carbon footprint.

Carbon Trust Standard

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



Gender of workforce

We are proud of our reputation for bringing the best talent through the business regardless of gender and we are proud that 70 per cent of our total workforce is female, almost half of our management population is female and, of the eight Board posts, three are held by women.

	Female	Male	Total
Board	3	5	8
Senior Managers	52	84	136
Other managers	280	278	558
All employees	14,783	6,125	20,908

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

Our risk management approach

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

Board of Directors

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

Insurance cover provides a means of mitigation for a number of risks facing the business. On an annual basis, the Board reviews the cover in place, and considers whether it is appropriate, taking advice from our brokers where necessary.

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

Operating Board

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

Risk Committee

The Risk Committee is a management committee that meets on a quarterly basis to discuss risks in greater detail than can be done during Operating Board meetings. It comprises the Chief Executive, the Operating Board and a number of heads of business functions. Its responsibilities include analysing, assessing, measuring and understanding the Company's risk exposure, as well as supporting the implementation of the business' risk management strategy. Significant areas of concern identified by this body will be reported through to the main Board, generally via the Audit Committee. Although the Committee's remit extends to all risks faced by the Company, it will focus on key strategic risks and their associated controls.

The Risk Committee also considers new and emerging risks as a standing agenda item, including those identified by the Board of Directors.

Whistle-blowing

All staff have an opportunity to raise matters of concern with senior management through our whistle-blowing policy as detailed on page 48, which is advertised across the business. The policy has been reviewed by the Audit Committee during the year.

Business Assurance

The Business Assurance function provides independent internal audit coverage for the entire business operation, and also supports risk management activity and information security governance across the organisation.

Audit findings are reported to management, and to the Audit Committee, whose meetings are all attended by the Head of Business Assurance. The Business Assurance team has authority to access all areas of the business, all senior managers and the Chair of the Audit Committee as required.

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

Principal risks and uncertainties

The Board has carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency and liquidity. These risks are described below, together with a brief description of mitigating activity.

Greggs is exposed to a wider range of risks than those listed. However, these are the risks which are considered to be the most important to the business' future development, performance or position. The risks identified are those to which the Board considers there is a disproportionate exposure, relative to the food-on-the-go sector. The impact of these risks occurring has been considered in developing the scenarios tested as part of the financial viability statement on page 41.

The following risks are in no particular order.

Additional risks and uncertainties, not presently known to management or deemed to be less material currently, may also have an adverse effect on the business. Greggs' exposure to risks evolves as we take mitigating actions or as new risks emerge.

Our exposure to cyber risk is not included within this analysis, since we do not consider our risk levels to be any greater than other comparable businesses in our sector. The Board continues to oversee and receive reports on the management of cyber risk in line with our normal business practice, our approach still being driven by a cross-functional working group, which sets the priorities and monitors progress.

Similarly, we face a risk relating to uncertainty in the economy giving rise to an inflationary impact on our customers' disposable incomes. However, we do not believe that this will have a disproportionate impact on us compared with our competitors.

Area of principal risk or uncertainty	Mitigating actions and controls	Risk rating
Business change – Greggs is implementing a strategic plan to transform the business from a decentralised traditional bakery to a centralised modern food-on-the-go brand. This is a major programme of business change involving restructuring, new systems, significant capital investment and a major overhaul of every aspect of the business, particularly supply chain. Progress may not be in line with plans, disruption could occur and financial returns may fall short of expectation.	The project delivery is overseen by the Operating Board, under the guidance of a project sponsor, providing robust governance. Regular updates are provided to the Board, to monitor progress against clearly defined timelines and financial forecasts.	 Increasing
Product quality and safety – Greggs is unusual in the food-on-the-go sector in that it is vertically integrated, owning its own manufacturing and supply chain operations. In addition, we freshly prepare food on our retail premises. This exposes us to greater risk in ensuring good food safety than many of our competitors.	Procedures are in place throughout our operations to ensure that food safety is maintained. These procedures are supported by robust audit processes, both internally and by regulatory bodies.	 No change
Food scare – Greggs may suffer from a loss of customer confidence due to a major food scare beyond its control. Dependent upon the nature of this, it may have a disproportionate impact on Greggs.	The majority of products for sale in our shops have been manufactured by our staff in our bakeries. Checks are carried out to confirm the integrity of our products and ingredients as part of routine processes.	 No change
Loss of production – Some of our products are produced in one location and distributed nationwide. Any disruption to supply would have a significant impact on our customers.	Contingency plans are in place for our supply sites and these are regularly tested. Our property insurers carry out annual site inspections, which help to protect our facilities from loss. We have alternative supply sources for key products and these are periodically tested.	 No change
Market pressures – Changing shopping habits driven by new customer channels, such as the internet, may have a greater impact on Greggs due to our historical bias towards shops located on high streets.	Greggs operates a leasehold shop estate with typically five-year break provisions, allowing us to change locations in line with customer traffic trends. In addition, new shops are predominantly opened in locations away from the high street to offer our services to customers away from home for reasons other than shopping. The nature of our franchise partners also provide mitigation.	 No change
Consumer trends – Increasing customer concern with health and nutrition may affect demand for some of our traditional bakery product ranges.	We have a proactive programme to improve the nutritional qualities of our traditional products where possible without impacting taste. In addition we are extending range choice to include healthier options branded 'Balanced Choice' which is growing rapidly.	 No change

Viability statement

The Directors have assessed the Company's prospects and viability taking into account its current position, plans and principal risks. The Company remains cash-generative and has no debt other than normal trading liabilities to creditors and the obligations arising under commercial leases. In assessing the Company's viability the Board has considered potential scenarios that have been envisaged to reflect the occurrence of the principal risks that the business faces.

In carrying out its assessment the Board has reviewed the three-year operational and financial plan to 2019. The Board believes that this viability assessment period is appropriate given its experience of the Company's cycle of strategic plan renewal and the fast-moving nature of the food-on-the-go market.

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

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

1. A brand-damaging food scare resulting in a significant one-year sales reduction followed by gradual recovery of confidence. In making assumptions, the Directors considered real examples of companies in the food sector that had experienced such issues.
2. The impact of a 10 per cent annual sales decline as a result of changing shopping habits or consumer trends.
3. Temporary loss of production capacity for the Company's iconic 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 scenarios represent more extreme circumstances than the Company has ever experienced.

Based on the results of this 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.

BOARD OF DIRECTORS AND SECRETARY

Ian Durant
Chairman



Roger Whiteside
Chief Executive



Richard Hutton FCA
Finance Director



Raymond Reynolds
Retail Director



Biography

Ian has a background in international finance and commercial management, with experience in the retail, property, hotels and transport sectors. His career includes leadership roles with the retail division of Hanson and Jardine Matheson, HongKong Land, Dairy Farm International, Thistle Hotels and SeaContainers and as Finance Director of Liberty International.

Roger began his career at Marks and Spencer where he spent 20 years, ultimately becoming head of its food business. He was then one of the founding team of Ocado, serving as Joint MD from 2000 to 2004. From 2004 to 2007 Roger led a successful turnaround as Chief Executive of the Thresher Group off-licence chain before joining Punch Taverns, ultimately becoming Chief Executive. Roger was appointed as Chief Executive of Greggs on 4 February 2013.

Richard qualified as a Chartered Accountant with KPMG and gained career experience with Procter and Gamble before joining Greggs in 1998. Richard has previously been a Non-Executive Director of Northern Recruitment Group, and last year chaired Business in the Community's North East Advisory Board.

Raymond joined Greggs in retail management in 1986. As General Manager during the 1990s, he built a significant new business for the Company in the Edinburgh region, and was appointed Managing Director for Scotland in 2002.

Appointed since

5 October 2011

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

13 March 2006

18 December 2006

Independent

Yes

Not applicable

Not applicable

Not applicable

External appointments

Chairman of Capital and Counties PLC.

Member of the Women's Business Council.

Trustee of Greggs Foundation. Trustee Director of Business in the Community. Trustee of the Alnwick Garden Trust.

Director of the Sunderland Business Improvement District. North East Chamber of Commerce Board member.

Committee membership

Chair of Nominations Committee

Not applicable

Not applicable

Not applicable

Menu favourite

Tuna Crunch Baguette

"Because it's big on flavour and made using tuna which has been sourced responsibly."

Sausage Roll

"Our classic favourites really can't be beaten!"

Jammie Heart Biscuit

"5p from the sale of every Jammy Heart biscuit goes to the Greggs Foundation (of which I am a trustee ☺)!"

Scotch Pie

"As a Scotsman, I look forward to shop visits in Scotland for this reason alone!"



Allison Kirkby
Non-Executive
Director



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

Helena Ganczakowski
Non-Executive
Director



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

Peter McPhillips
Non-Executive
Director



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

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.

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.

30 January 2013

2 January 2014

10 March 2014

1 May 2014

12 May 2010

Yes

Yes

Yes

Yes

Not applicable

Director of Secure Value Consulting Limited. Board member of Reach for Change.

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

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

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

Member of the British Retail Consortium Policy Board; Trustee Director of the Percy Hedley Foundation. Non-Executive Director of Newcastle Hospitals NHS Foundation Trust.

Chair of Audit Committee; Remuneration and Nominations Committee member

Audit, Remuneration and Nominations Committee member

Audit, Remuneration and Nominations Committee member

Chair of Remuneration Committee; Audit and Nominations Committee member

Secretary to the Board and all its Committees

Bacon Roll

"Nothing beats a simple bacon roll for breakfast."



Balanced Choice Bake

"It offers all the taste and comfort of a traditional pastry but with fewer calories!"



Ham and Cheese Baguette

"Honey roast ham and cheddar cheese – the perfect combination."



Sugar Strand Doughnut

"It winked at me and I just had to eat it!"



Mexican Chicken Oval Bite

"Our famous oval bites are the perfect lunch solution."



We strive to engage openly and honestly at all times, particularly when proposing changes to the business structure.



Dear Shareholder,

Our governance report for 2016 is set out on pages 45 to 48.

There have been some interesting developments in UK Corporate Governance recently, not least of which is the Government's Green Paper, which focuses on executive pay and the desire to ensure greater stakeholder engagement, most notably with colleagues in the business. As you will read in our remuneration report on pages 56 to 72, we have consulted a number of our institutional shareholders and will be seeking approval of our remuneration policy at the Annual General Meeting. We believe that our policy strikes an appropriate balance between fair remuneration for everyone and rewarding excellent performance. In support of this, annual remuneration increases are generally applied at the same rate to everyone in the Company, including Directors, and a portion of our profits are shared with our colleagues each year.

Colleague engagement is a topic that the Board considered during its annual evaluation in December 2016. Greggs is a company that strives to engage with its colleagues openly and honestly at all times, particularly when changes to the business structure are being proposed, as you will have read about elsewhere in this year's annual report. Members of the Operating Board regularly meet on a more formal basis with nominated colleague representatives, and informally with listening groups held in our bakeries and shops. We also conduct an annual Employee Opinion Survey, and the Board was pleased to note that colleague engagement was maintained at 80 per cent when measured in November 2016 which is around five per cent better than other companies in the retail sector.

The Board has agreed that, as part of its objectives in 2017, the Non-Executive Directors will gain a deeper understanding of the issues that come out of the employee engagement survey, and that we will participate in some of the formal and informal meetings that take place, as we seek to better understand and build on the culture and values that make this Company a great place for people to work.

This year, we have adopted a different approach to social responsibility reporting. We have not included a separate section in our annual report, but instead have incorporated a series of case studies into our business review, reflecting the fact that social responsibility activity is fully integrated into our business. To the extent that we are required to report certain results, for example our carbon use, this is found within our non-financial KPIs on page 38.

I look forward to welcoming shareholders to the Annual General Meeting, which will be held in Newcastle on 19 May 2017, and to receiving and answering your questions.

Ian Durant
Chairman

“

In 2016 colleague engagement was maintained at 80%.

”

The Company is subject to the UK Corporate Governance Code issued by the Financial Reporting Council. The edition of the Code issued in September 2014 applied throughout the 2016 financial year. This governance report, together with information contained elsewhere within the Directors' report, describes how the relevant principles and provisions of the Governance Code were applied in 2016 and will be relevant to the Company for the 2017 financial year.

The Company has been a constituent of the FTSE 250 index throughout 2016, and maintains a Premium listing on the London Stock Exchange.

The Board confirms that it was compliant with the Governance Code throughout the year, and all of the policies and terms of reference referred to in this report are available on the corporate website at <http://corporate.greggs.co.uk>.

The Board

Effectiveness

The Chairman chairs the Nominations Committee whose primary function is to consider the blend of skills and experience that the Directors bring to the Board. This includes independent and objective experience of food retailing and manufacturing, finance, marketing, property and corporate finance to complement the existing skills and experience of the Executive Directors.

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

During the year, the Chairman and the Non-Executive Directors undertook a number of visits and meetings as part of the day-to-day running of the business, in order to ensure that they were sufficiently well-versed in operations to facilitate strong support and challenge. Each year the Board visits a production site, and in 2016 was able to view the new Distribution Centre at Enfield. Individually, Non-Executive Directors held a number of one-to-one meetings with members of the Operating Board, attended supplier review meetings, supported management in the recruitment of a new Customer Director, as well as regularly speaking with shop teams across the country.

The Board schedules six meetings per year and also meets on an ad hoc basis as required. Attendance at scheduled meetings held during the year is recorded in the table below, where the number of meetings actually attended are shown with the number of meetings that the individual could have attended.

	Main Board	Audit Committee	Remuneration Committee	Nominations Committee
Number of meetings held	6	4	5	2
Ian Durant	6/6	–	–	2/2
Roger Whiteside	6/6	–	–	–
Richard Hutton	6/6	–	–	–
Raymond Reynolds	6/6	–	–	–
Helena Ganczakowski	6/6	4/4	5/5	2/2
Allison Kirkby	6/6	4/4	5/5	2/2
Peter McPhillips	6/6	4/4	5/5	2/2
Sandra Turner	6/6	4/4	5/5	2/2

All Directors are invited to attend the Audit Committee and the Chief Executive attends the Remuneration and Nomination Committees. The business conducted at Committee meetings is reported by the respective Chair at subsequent Board meetings. In addition, the Non-Executive Directors meet formally twice each year and from time to time, as required.

Board modus operandi

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

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

At each Board meeting, the Board receives and discusses reports from each of the Executive Directors and the Company Secretary. Additionally, and as part of the process of maintaining an awareness of the Company's activities and assessing the ability of the management team, members of the senior management team are invited to attend Board meetings to present papers to the Board. This process also affords senior managers the opportunity to bring matters to the attention of the Board.

During the year, the Board received regular updates including:

- Key priority progress and strategic developments, which in 2016 included full updates on the proposed £100 million investment in our supply chain and progress with the implementation of ERP systems, notably the trial of forecasting and replenishment into 100 stores.
- Customer insight, competitor activity marketing and category plans.
- Wage negotiations and people issues.
- Food safety and health and safety.

The Board sets itself a rolling agenda which facilitates agenda planning for scheduled meetings across the year. In this way the Board monitors its activities and ensures that it is operating effectively.

Diversity

The Board believes it is in the best interests of the Company to bring more women through to the top levels of the organisation and, as a result of this belief, a programme which was launched in 2012 to encourage women to strive for the most senior positions in the business. Our gender reporting is now contained on page 38 of the strategic report.

Succession, development and evaluation

The Board is satisfied that a process is in place for orderly succession to the Board and to positions of senior management, so as to maintain an appropriate balance of skills and experience within the Company and on the Board. The Chief Executive meets with the Chairman and the Non-Executive Directors on a regular basis in order that succession and development plans can be drawn up for Executive Directors and members of the Operating Board. All Directors are able to receive training and to take independent professional advice at the expense of the Company. They also have direct access to the Company Secretary, who is responsible for advising the Board on all governance matters.

Evaluation

The performance of the Board, its Committees and of all Directors is evaluated annually by a formal and rigorous process.

In 2015, the Board conducted its first externally-facilitated Board evaluation, which produced encouraging outcomes recognising a collegiate approach with no significant concerns. Building on this, in 2016 the Board conducted its own evaluation which consisted of a question-based review which resulted in a series of themes that were debated at a Board meeting. The emerging themes included levels of cyber security, diversity and succession planning at operational level, and consideration of how the Non-Executive Directors could create opportunities to listen to colleagues at every level of the business. Consequently, it was agreed that the People Director would be asked to provide a deeper review of the results of the 2016 Employee Opinion Survey, so that Non-Executives could then engage directly with shop and bakery teams through existing regular engagement opportunities attended by management.

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

Election and re-election of Directors

The Board has resolved that, in line with Governance Code provision B.7.1, all Directors will be subject to annual re-election by shareholders. Following recommendation by the Nominations Committee, all of the Non-Executive Directors who will offer themselves for re-election at the Annual General Meeting are considered by the Board to be independent in character and judgement and to be free from any business or other relationship or circumstance which is likely to affect or to interfere with the exercise of their independent judgement.

Board committees

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

The Audit Committee currently consists of four independent Non-Executive Directors: Allison Kirkby (Chair), Helena Ganczakowski, Peter McPhillips and Sandra Turner. The Committee met four times in the year, and a fuller report on its activities is set out on pages 51 to 55.

The Remuneration Committee currently consists of four independent Non-Executive Directors: Sandra Turner (Chair), Helena Ganczakowski, Allison Kirkby and Peter McPhillips. The Committee's main duties (which it discharged during the year) are set out within the Directors' remuneration report which is set out on pages 56 to 72 of this annual report. This includes for information purposes the Board's proposed new policy on remuneration, which shareholders will be asked to approve at the AGM to be held on 19 May 2017. The Chairman's fees are reviewed annually and set by the Executive Directors, following the general policy of everyone in the Company receiving the same basic level of pay award.

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

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

The Nominations Committee did not seek external consultancy support during 2016.

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

Risk management

Details of the Company's principal risks and the management of them are set out within the strategic report, and given in pages 39 and 40.

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

Relations with shareholders

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

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

The Chairman did not undertake any 'Greggs-specific' meetings with institutional shareholders during 2016, although he regularly attends meetings and events which provide him with the opportunity to engage generally with the investment community.

During the last quarter of 2016, the Remuneration Committee chair engaged with institutional shareholders representing over 50 per cent of the issued share capital, as part of the consultation on the proposed Remuneration Policy which will be put to shareholders at the AGM in May 2017.

The Company Secretary and the Company's Brokers draw the attention of the Board to all relevant shareholder communications. The Board also reviews briefings and comments by analysts and shareholders in order to maintain an understanding of market perceptions of the Company. The Board reviews at each meeting an analysis of the share register, noting all significant changes.

The Annual General Meeting (AGM) is well attended, and a short presentation of business performance is given to attendees by the Chief Executive (although no non-public sensitive information is shared). The Chairman and the Chairs of the Board Committees are available to answer any issues raised and any newly-appointed Directors being available to meet shareholders. During informal sessions both before and after the meeting, the Chairman and all Directors are available to meet with any of the 60 or so individual private shareholders who are in attendance. This is in addition to the opportunity given to shareholders to ask questions of the Board during the formal meeting. In 2016, information stalls were set up at the entrance to the meeting informing shareholders of the Company's progress on key social responsibility topics, including farm animal welfare. At each AGM, the balance of proxy votes cast for and against each resolution and the number of abstentions is displayed. All substantial issues, including the receipt of the annual report and accounts, are proposed at the AGM as separate resolutions. All resolutions were strongly supported by shareholders and were determined by poll, in accordance with best practice.

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

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

Substantial shareholdings

At 28 February 2017 the only notified holdings of substantial voting rights in respect of the issued share capital of the Company (which may have altered since the date of such notification, without any requirement for the Company to have been informed) were:

	Number of shares held	Percentage of issued share capital
MFS Investment Management	5,314,697	5.25%
Standard Life	5,153,213	5.09%

Accountability, audit and going concern

The Board acknowledges its responsibility to present a fair, balanced and understandable assessment of the Company's position and prospects. In order to assist the Board to comply with the requirements within the Governance Code, the Audit Committee was requested to undertake an assessment of the annual report and to make a recommendation to the Board. This request has been enshrined within the Audit Committee's terms of reference, which are available at <http://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 conform 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 3 to 41, together with the statutory accounts themselves, the Board duly considers the annual report and accounts, taken as a whole, is fair, balanced and understandable, and provides the necessary information for shareholders to assess the Company's performance, business model and strategy.

A statement of Directors' responsibilities in respect of the preparation of accounts is given on page 73. A statement of auditor's responsibilities is given in the report of the auditor on page 76.

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 82). The Board's 'viability statement' made in accordance with Code provision C.2.2; can be found on page 41.

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 anyone acting on its behalf, in order to gain an advantage in an unethical way.

Business conduct

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

Whistle-blowing

Our 'whistle-blowing' policy creates an environment where employees are able to raise concerns without fears of disciplinary action being taken against them as a result of any disclosure. Any matters raised are treated in confidence and an independent review will be undertaken where this is appropriate. The Chair of the Audit Committee is the designated first point of contact for any concerns which cannot be addressed through normal management processes.

Political donations

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

Disclosure of information to the auditor

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

Directors and their interests

The names of the Directors in office during the year, together with their relevant interests in the share capital of the Company at 2 January 2016 and 31 December 2016 are set out in Note 25 to the accounts. Details of the Directors' share options are set out in the Directors' remuneration report on pages 56 to 72.

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

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

Directors' indemnities and conflicts

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

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

Additional information

- The information set out within the governance report on pages 45 to 48 forms part of the Directors' report.
- Greenhouse gas emissions: All disclosures concerning the Group's greenhouse gas emissions (as required to be disclosed under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 are contained in the non-financial KPIs on page 38.

Authority to purchase shares

At the AGM on 10 May 2016, the shareholders passed a resolution authorising the purchase by the Company of its own shares to a maximum of 10,350,000 ordinary shares of 2 pence each.

That authority had not been used as at 31 December 2016.

The authority remains in force until the conclusion of the AGM in 2017 or 9 August 2017, whichever is the earlier. It is the Board's intention to seek approval at the 2017 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 (CA 2006), the Company is required to disclose certain additional information in the Directors' Report. This information is set out below:

- The Company has one class of share in issue being ordinary shares of 2 pence each. As at 28 February 2017, there were 101,155,901 such ordinary shares in issue. There are no shares in the Company that grant the holder special rights with regard to the control of the Company.
- At general meetings of the Company, on a show of hands every shareholder present in person or by proxy has one vote only and, in the case of a poll, every shareholder present in person or by proxy has one vote for every share in the capital of the Company held by him or her.
- The Company's articles of association set out the circumstances in which shares may become disenfranchised. No shareholder is entitled, unless the Directors otherwise determine, in respect of any share held by him or her to be present or vote at a general meeting either personally or by proxy (or to exercise any other right in relation to meetings of the Company) in respect of that share in certain circumstances if any call or other sum is payable and remains unpaid, if the shareholder is in default in complying with a duly served notice under section 793(1) 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 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.
 - Details of significant holders of the Company shares are set out on page 47.
 - Where, under an employee share plan operated by the Company, participants are the beneficial owners of shares but not the registered owner, the voting rights are normally exercised by the registered owner at the direction of the participant.
 - The Company's articles of association may only be amended by special resolution at a general meeting of the shareholders.
 - The Company's articles of association set out how Directors are appointed and replaced. Directors can be appointed by the Board or by the shareholders in a general meeting. At each Annual General Meeting, any Director appointed by the Board since the last Annual General Meeting must retire from office but is eligible for election by the shareholders. Furthermore, the Board has resolved that, in line with Governance Code provision B.7.1, all the Directors will be subject to annual re-election by shareholders. Under the CA 2006 and the Company's articles of association, a Director can be removed from office by the shareholders in a general meeting.
 - The Company's articles of association set out the powers of the Directors. The business of the Company is to be managed by the Directors who may exercise all the powers of the Company and do on behalf of the Company all such acts as may be exercised and done by the Company and are not by any relevant statutes or the Company's articles of association required to be exercised or done by the Company in a general meeting, subject to the provisions of any relevant statutes and the Company's articles of association and to such regulations as may be prescribed by the Company by special resolution.
 - Under the CA 2006 and the Company's articles of association, the Directors' powers include the power to allot and buyback shares in the Company. At each Annual General Meeting, resolutions are proposed granting and setting limits on these powers.
 - The Company is not party to any significant agreements which take effect, alter or terminate upon a change in control of the Company, following a takeover bid.
 - There are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) that occurs because of a takeover bid. Details of the Directors' service agreements and terms of appointment are set out in the Directors' remuneration report on pages 56 to 72. However, provisions in the employee share plans operated by the Company may allow options to be exercised on a takeover.

Employees

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

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

Significant relationships

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

The strategic report (pages 3 to 41) and Directors' report (pages 42 to 73) are signed on behalf of the Board.

Jonathan D Jowett
Company Secretary
Greggs plc (CRN 502851)

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

28 February 2017

AUDIT COMMITTEE REPORT



Introduction

I am pleased to introduce the report of the Audit Committee for 2016.

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

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

The Committee continues to keep its activities under review in the light of regulatory developments and the emergence of best practice. In particular, it will oversee the implementation of the European Audit reforms which have come into effect this year, to ensure the Company's compliance. The Committee has also considered the FRC's Corporate Reporting Thematic Reviews on Tax Disclosures and Alternative Performance Measures which were issued in 2016.

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

Allison Kirkby
Chair of the Audit Committee

28 February 2017

“

The activities of the Committee enable it to gain a good understanding of the key matters impacting the Company during the year.

”

Composition

The Audit Committee is comprised of the following:

Allison Kirkby (Chair)
Helena Ganczakowski
Peter McPhillips
Sandra Turner

It is the practice of the Company for all independent Non-Executive Directors to serve as members of the Audit Committee. There have been no changes in the composition of the Committee during 2016.

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 42 and 43 detail the Committee members' previous experience. The Board considers that Allison Kirkby has recent and relevant financial experience and is confident that the collective experience of the members enables them to act effectively as an Audit Committee.

Role and responsibilities

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

The key responsibilities of the Audit Committee are:

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

Meetings during the year

The Audit Committee met four times during the year. Details of Committee members' attendance is given on page 45.

The Committee normally invites the Company Chairman, the Executive Directors, the Head of Business Assurance and the external auditor to attend its meetings. Time is set aside bi-annually for discussion with the external auditor and with the Head of Business Assurance, in each case in the absence of all Executive Directors. The Committee also has access to the Company's management team and to its auditor and can seek further professional advice, at the Company's cost, if required. The Chair has regular contact with the Finance Director, and internal and external auditors, in addition to scheduled Committee meetings to ensure that emerging issues are addressed. She also has access to and, in 2016 made contact with, an audit partner independent of the partner responsible for the audit.

Financial reporting

In 2016 the Audit Committee reviewed the 2015 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 statements for the 52 weeks ended 31 December 2016 are as follows:

Area of focus

Action taken

Understanding and treatment of exceptional items

The accounts include exceptional items in the current year.

The costs incurred in 2016 relate to the closure of three bakery sites and include redundancy and other employment-related costs, costs related to redundant assets and other contractual obligations that arise as a result of the closure of the sites.

The Committee considered the accounting requirements of IAS1 relating to the separate disclosure of material items of income or expense together with the FRC's guidance on the subject, with reference to the costs arising from the decision, announced in March 2016, to invest in and reshape the Company's supply chain in order to support future growth.

The Committee ensured that consistent principles were established (and agreed with the external auditor) early in the process and that reporting 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 2016 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 the GAAP and non-GAAP measures. It concluded that separate disclosure should be made of items of expenditure incurred in 2016 related to the supply chain investment programme.

Dilapidations

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

The balance held in respect of dilapidation provisions at the end of the year was £3,243,000 (2015: £3,343,000).

The Committee reviewed management's assessment of the need for dilapidation provisions, together with the movement in the provision during the year, and concluded that the principles applied were appropriate.

Accounting for onerous leases

Onerous lease provisions have been made for shops which have been vacated, have been identified for closure or re-site or are not generating sufficient profits to cover the lease costs in full. The key area of judgement in making this provision is the determination of the length of time it will take to find a suitable exit opportunity for each lease.

The onerous lease provision held on the balance sheet at 31 December 2016 is £1,819,000 (2015: £2,289,000).

The Committee reviewed management's assessment in respect of these leases together with the movement in the provision during the year and concluded that the assumptions made were appropriate.

Asset impairment

The accounts include asset impairment provisions made by assessing expected future cash flows. The results of the impairment reviews were presented by management to the Committee based on the following methodologies.

For shop assets historic cash flows including attributable overheads are used as a base, with a 0% growth rate and a discount rate of 10% applied over an appropriate period based on the remaining lease term.

For supply chain assets the recoverable amount of the sites and any obsolete equipment is compared to its carrying amount.

The carrying value of fixed assets at the end of the year is reduced by impairment provisions totalling £3,942,000 (2015: £3,445,000).

The Audit Committee considered the sensitivities of the assumptions used and assessed whether any reversal of impairment was indicated by improved trading in the impaired shops. It concluded that the impairment provisions were appropriate and that they reflected suitably the future plans of the business.

Accounting for defined benefit pension scheme

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 the defined benefit pension scheme at the end of 2016 was £22,851,000 (2015: £3,910,000).

Pension scheme liabilities are assessed on behalf of the Company by independent actuaries. The Committee assessed the underlying assumptions and concluded that they were appropriate and also discussed the appropriateness of the assumptions with the external auditor.

Fair, balanced and understandable

The Committee is responsible for advising the Board on whether it believes the annual report and accounts, taken as a whole, is fair, balanced and understandable.

The Committee received a report from the Head of Business Assurance who is not involved in the preparation of the annual report and accounts and who conducted an independent review of it. The following factors were considered during the course of this review:

- ensuring that all the statements are consistent with one another;
- verifying that figures in the narrative sections are consistent with the relevant financial detail;
- identifying any duplication of information;
- ensuring that the disclosure of non-underlying items is balanced;
- confirming that 'bad news' is included, as well as 'good news'; and
- highlighting any inappropriate use of technical language or jargon.

The Audit Committee considered the feedback from this report alongside its own review of the annual report and accounts when making its recommendation to the Board regarding fair, balanced and understandable.

AUDIT COMMITTEE REPORT CONTINUED

Area of focus

Action taken

Going concern

The accounts continue to be prepared on a going concern basis.

Information provided by the Finance Director regarding future financial plans, risks and liquidity is presented to the Committee to enable it to determine whether the going concern basis of accounting remained appropriate.

The Committee reviewed and challenged the assumptions used and concluded that the Board is able to make the going concern statement on page 48 of the Directors' report.

Viability

Revisions to the UK Corporate Governance Code in 2015 introduced a new requirement for the Board to consider the period over which they are able to conclude that the Company will remain viable, having taken into account severe but plausible risks and risk combinations. On account of this being a relatively new requirement, the Committee considered this to be a significant reporting matter.

The Committee reviewed the process undertaken by management to support and allow the Directors to make the Group's 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 41 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 its fees in respect of the audit.

The Committee reviewed the effectiveness of the external audit in line with the Financial Reporting Council's 'Practice aid for audit committees' which was issued in 2015. It considered the results of external quality inspections by the Audit Quality Inspection Team on other KPMG clients. It sought feedback from senior management, by way of a detailed questionnaire, in respect of the effectiveness of the audit process with particular reference to audit planning and design and audit execution.

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

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

Appointing the auditor and safeguards on non-audit services

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

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

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

During the year the Company has reviewed the provision of non-audit services. 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 its independence as auditor.

The Audit Committee has reviewed whether, and is satisfied that, the Company's auditor, KPMG LLP, continues to be objective and independent of the Company. KPMG LLP did perform non-audit services during 2016 for the Group but the Audit Committee is satisfied that its objectivity was not impaired by such work.

In 2016, the charge to the income statement in respect of non-audit fees paid to KPMG LLP and related KPMG operations amounted to £28,000 (which is 19 per cent of the audit fee for the year) and related to audit of turnover statements required by shop landlords and pension scheme audits.

In June 2016 the FRC issued a revised Ethical Standard which incorporated its response to the implementation of the EC Audit Directive and Regulation in the UK. As expected the Standard mandates that KPMG will not be able to undertake any 'blacklisted' non-audit work if they remain as auditor beyond the end of the 2016 financial year. As a result the Company has appointed alternative providers for all aspects of the 'blacklisted' non-audit work previously carried out by KPMG, which in recent years has consisted wholly of taxation services.

Reappointment of auditor

In accordance with Section 489 of the Companies Act 2006, a resolution for the reappointment of KPMG LLP will be proposed at the forthcoming AGM.

Risk management and internal control

Internal control

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

Whistle-blowing

The Company's whistle-blowing policy is made available to all employees through the intranet, as well as via posters displayed across the business. This gives information regarding how to raise a concern in strict confidence. Two reports were made during the year, one relating to management issues and one to a potential small-scale fraud. The events were reported either directly to the Chair of the Audit Committee by telephone or email, or came in via another external route. In each case the issues were investigated, a judgement was made and action taken by senior management, supported by Business Assurance and with an appropriate level of discretion. The outcome of all matters was reported to the Board during the year.

The Company's whistle-blowing policy has been reviewed during the year, to ensure that it remains appropriate and in line with best practice.

Risk management process

The Audit Committee undertakes a review of the risk management process in the Group at least annually, as set out in its terms of reference. The process is detailed on page 39, and has been reviewed by the Committee to confirm its appropriateness in light of the risks identified. The key areas that the Committee has specifically considered are as follows:

Area of focus	Action taken
Review of principal risks and uncertainties	The Committee considered the proposed disclosure of principal risks and uncertainties within the annual report which had resulted from the Risk Committee's review of the risks facing the Company. This included consideration of uncertainties in the economic outlook.
SAP implementation	The Committee has continued to receive regular updates on the implementation plans for SAP, including timeframes, resource requirements and governance arrangements. A specific focus was placed on the cutover of the financial data from the legacy systems into SAP.
Cyber risk assessment	The Audit Committee has continued to take a close interest in the Company's approach to cyber risk. An update on activity is provided to each meeting. The Committee received a training session from the external auditor during the year. A subsequent meeting included a significant focus on cyber and information security risks, including a cyber threat analysis.

Internal audit

The work of the internal audit function is set out in more detail within the principal risks and uncertainties section on pages 39 and 40 of this annual report. The team is led by the Head of Business Assurance, supported by the Risk Manager, the Information Security & Compliance Manager and 16 auditors, the majority of whom work across the retail estate to provide assurance over the Company's retail operations. The Audit Committee approves the annual plan for the team and monitors progress against that plan. The effectiveness of the internal audit team and its level of resource are reviewed by the Committee at least annually.

Committee effectiveness

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

Allison Kirkby

Chair of the Audit Committee

28 February 2017



Dear Shareholders

I am pleased to present our remuneration report for 2016.

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

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

- This annual **Chair's letter**.
- Our **remuneration policy report**, which sets out a summary of the Directors' remuneration policy for all Directors of Greggs. This is a new policy for the three years from 2017 and will be put to a binding vote of shareholders at the AGM to be held on 19 May 2017.
- Our **annual remuneration report**, split into two sections that set out:
 - how our remuneration policy will be implemented in 2017; and
 - how our remuneration policy was implemented in 2016. This is an audited section of the report outlining the remuneration of the Company's Executive and Non-Executive Directors during the 52 weeks ended 31 December 2016.

The annual remuneration report is subject to an advisory shareholder vote at the 2017 AGM.

Remuneration policy

In reviewing the remuneration policy for the forthcoming three-year period the Committee was very aware that executive remuneration continues to be a key focus for shareholders, as well as being a topic that is regularly discussed in the public domain. The Committee has monitored the effectiveness of the current remuneration policy since it was first approved by shareholders at the 2014 AGM. During 2016 the Committee undertook an extensive review of the current policy taking into close account the business strategy, current emerging market practice and the best practice expectations of institutional investors. In assessing the effectiveness of overall levels of remuneration, the Committee took into account a number of reference points, both internal and external. Independent advice has also been sought, where appropriate, from New Bridge Street, the Committee's advisers.

Remuneration structure and philosophy

The existing remuneration framework consists of the following elements:

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

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

Policy report review

Our **remuneration policy report** sets out a new policy for the three years from 2017 and will be put to a binding vote of shareholders at the AGM to be held on 19 May 2017 and, if agreed, will take formal effect from that date.

Since announcing our five-year strategic plan in 2013, transforming the business from a traditional bakery into a modern food-on-the-go retailer, we have delivered excellent operational and financial performance. In the three years since 2013 our company-managed like-for-like sales have grown by 13.4 per cent and pre-tax profit (excluding exceptional items) has increased by 95 per cent, reflecting sales growth combined with significant savings arising from structural changes and investment in better processes and systems. This is reflected in strong EPS growth (averaging 26 per cent p.a. since 2013).

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

Greggs carried out full consultation with certain institutional shareholders in regards to these amendments, with feedback received stating that in general they were supportive of the proposed changes to the current policy that are outlined below.

In summary, the two main revisions to the policy are as follows:

PSP awards

The current policy provides for PSP awards of 90 per cent of salary for the Chief Executive and 70 per cent of salary for the other Executive Directors, with awards of up to 120 per cent of salary in exceptional circumstances. It is proposed that the new policy will provide awards of 115 per cent of salary for the Chief Executive and 95 per cent of salary for the other Executive Directors. Awards in exceptional circumstances will be limited to 150 per cent of salary. A resolution to amend the PSP rules to increase the normal and exceptional limits to these levels will be presented at the AGM.

The Committee is mindful of increasing remuneration in the current political and economic environment. However, it believes that the revised award levels are required to ensure that the policy is fit-for-purpose for the next policy cycle, and ensure that Executive Directors are appropriately incentivised to deliver and drive the business forward, and rewarded for success. The proposed award levels remain below mid-market levels and total remuneration is positioned appropriately.

Share retention guideline

The current share retention guideline is for the Chief Executive to hold 150 per cent of salary and other Executive Directors 100 per cent of salary in Greggs shares. As part of the review, and mindful of best practice and shareholder expectations, the Committee proposes to increase the minimum share retention guideline to 200 per cent of salary for all Executive Directors.

Performance in 2016 and incentive payments

The Company performed well against its financial targets as described in the financial review on pages 30 to 33. Against the targets set at the beginning of the year for the annual bonus, the profit element resulted in 38.3 per cent of the maximum being achieved with 18.4 per cent of the maximum sales performance being achieved. There was a stronger performance in the strategic objectives that were set with the customer transaction growth and cost saving objectives, both achieving 100 per cent bonus pay out. We made excellent progress with our additional strategic targets around our technology and change programme and, accordingly, there is also 100 per cent bonus payment against these strategic elements. Overall annual bonuses representing 108.4 per cent (out of a maximum possible of 125 per cent) and 78.0 per cent (out of a maximum possible of 90 per cent) of salary will be payable to the Chief Executive and other Executive Directors respectively. The Committee is satisfied that this level of bonus reflects the strong financial performance during the year and the delivery of the key strategic objectives. Any element of the bonus earned above 50 per cent of the maximum will be paid in shares to the Chief Executive and Executive Directors and will be subject to a two-year holding period.

Under the Performance Share Plan, awards made in March 2014 are due to vest in March 2017. These awards are based on EPS growth over the three years to 31 December 2016 and average annual ROCE over the three-year performance period 2014 to 2016. The EPS performance condition measured to the 2016 financial year end has been achieved in full and likewise for

ROCE. For the purpose of calculating remuneration payable we have assumed a full vesting of the award, which is reflective of the current level of performance.

Over this three-year period our EPS has grown by 34.2 per cent and our ROCE has been measured at 25.8 per cent. The Committee is very comfortable that this performance justifies a full vesting level for this award.

Approach for 2017

The salary increase for both the Chairman and Executive Directors was in line with that of the base increase for the workforce generally and was 2.5 per cent. Increases to salaries and fees took effect from 1 January 2017.

As part of the remuneration policy review, the performance measures and target-setting process for the annual bonus were also reviewed. The Committee believes that the nature of the current measures (profit, sales and strategic objectives) remains appropriate and no changes are proposed. Targets for these measures for the 2017 annual bonus have been set in line with the financial plan for the business for the year and the rolling five-year strategic plan. We have reviewed the level of our targets in 2017 and have made them significantly more stretching. As a result, for 2017 the profit and sales threshold performance will pay out at 10 per cent (reduced from 25 per cent in 2016) and our on target performance will pay out at 30 per cent (reduced from 60 per cent in 2016) of maximum. Due to the commercial sensitivity of these targets they are not disclosed within this report, but will be disclosed retrospectively in next year's report.

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

Concluding remarks

I hope that you will find this report transparent, clear and informative. The Committee has sought this year to undertake an extensive review of the current policy and make simple amendments to the remuneration policy to ensure that executive remuneration is aligned to the delivery of Greggs business strategy. This will ensure that the alignment between our Executive Directors and shareholders is strengthened whilst taking close account of the business strategy, current and emerging market practice and the best practice expectations of institutional shareholders.

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

Yours faithfully

Sandra Turner
Chair of the Remuneration Committee
28 February 2017

Remuneration policy report

This section of our report sets out the summary of the remuneration policy for all Executive and Non-Executive Directors at Greggs. It explains the purpose and strategy of each element of the package and demonstrates how the policy will incentivise Executive Directors to achieve sustainable long-term growth and value that will best serve the interests of the Company, its shareholders, its employees and its customers.

Our Directors' remuneration policy was approved by shareholders at our AGM on 1 May 2014 and became effective for three years from that date. The policy outlined below is a new policy for the three years from 2017 and will be put to a binding vote of shareholders at the AGM to be held on 19 May 2017. A resolution to amend the PSP rules to increase the normal and exceptional limits will also be presented at the AGM.

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

Executive Directors

Element	Purpose and strategy	Operation	Maximum opportunity
Base salary	To attract and retain high calibre individuals in order to promote the long-term success of the business.	Reviewed and set annually in January. Benchmarked periodically by the Committee against the remuneration levels for executives in similar roles in companies of a comparable size. Individual performance and contribution is recognised in setting salary levels. Salaries are paid monthly in cash.	Key reference points for salary increases are market and economic conditions and, in line with our values, the approach to employee pay throughout the organisation.
	No change to policy from 2014 vote.		
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.
	No change to policy from 2014 vote.		
Pension	To support a competitive remuneration package in the marketplace.	Executive Directors can elect to either: – participate in the Company defined contribution pension scheme (up to a cap). Above the cap Executive Directors receive a salary supplement; or – take cash in lieu of this contribution paid as a supplement to their salary on a monthly basis. The Executive Directors are able to make this choice on an annual basis. The remuneration adjustment is disclosed later in this report.	Up to 22.5% of base salary contribution for the Chief Executive and up to 15% of base salary for other Executive Directors.
	No change to policy from 2014 vote.		
Annual bonus (including profit share)	To incentivise achievement of annual targets and objectives consistent with the short to medium-term strategic needs of the business, so as to encourage sustainable growth in the Company's operating profits.	The bonus will be based on a mix of business KPIs, with operating profit being the largest component of the mix of metrics and this will not be less than 50% of the overall mix. Targets for each metric are set in advance and in line with business planning objectives set by the Committee. Each Executive Director is entitled to participate in the Company's profit sharing scheme available to all employees. The value of this is then deducted from their annual bonus and is subject to the individual cap. The Committee will use appropriate underpins for any non-profit based element of the annual bonus such that payment under these elements may be scaled back (potentially to zero), at the discretion of the Committee, in the event that the operating profit performance for the year is judged to be running significantly below that required for the achievement of the long-term strategy. Any bonus paid in excess of 50% of the maximum will be payable in shares, which (after any sales to pay tax and other statutory deductions) must be held in the Employee Benefit Trust for two years after receipt. The dividends payable on deferred bonus shares are paid to the individual as they fall due. Recovery and withholding provisions allow the Company to recoup annual bonus payments within three years in the event of misstatement of performance, error or misconduct, where this has led to an overpayment in the view of the Committee. There is a flexible mechanism which allows the Company to withhold outstanding deferred or future remuneration, or recover the overpayment directly from the individual concerned.	Capped at 125% of base salary for the Chief Executive and 90% of base salary for other Executive Directors. On target performance delivers no more than 60% of the maximum. No more than 25% of the bonus opportunity is payable under each element for threshold performance.
	No change to policy from 2014 vote.		

Element	Purpose and strategy	Operation	Maximum opportunity
Performance Share Plan (PSP)	To incentivise long-term value creation, retention of our talent and ensure alignment of Executive Directors' and shareholders' interests.	Awards are granted under the PSP annually at the discretion of the Committee. Performance conditions will be based on an equal split of two different financial measures, EPS and ROCE (for discrete parts of an award). Targets will be set for each metric which reflect the strategic plan and business outlook over the respective performance period. The mix may alter for future awards and/or different metrics, such as TSR, may be used. Performance will be measured over a three-year period with an additional mandatory holding period of two years for the vested shares (net of tax and other deductions). Recovery and withholding provisions allow the Company to recoup vested Performance Share awards within three years in the event of misstatement of performance, error or misconduct, where this has led to an overpayment in the view of the Committee. There is a flexible mechanism which allows the Company to withhold outstanding deferred or future remuneration, or recover the overpayment directly from the individual concerned.	115% of base salary for Chief Executive and 95% of base salary for other Executive Directors. 150% of base salary in exceptional circumstances. Threshold vesting at 25% of the maximum.
Proposed change for 2017 policy vote The current policy provides for PSP awards of 90% of salary for the Chief Executive and 70% of salary for the other Executive Directors, with awards of up to 120% of salary in exceptional circumstances. It is proposed that the revised policy will allow for awards of up to 115% of salary for the Chief Executive and 95% of salary for the other Executive Directors. Awards in exceptional circumstances will be limited to 150% of salary. The Committee believes that the revised award levels are required to ensure that the policy is fit-for-purpose for the next policy cycle and ensure that Executives Directors are appropriately incentivised to deliver and drive the business forward and rewarded for success.			
Savings Related Share Option Scheme (SAYE and SIP)	To encourage employees at all levels within the Company to understand better and so participate in the growth in value of the Company.	No performance conditions have been attached to options granted pursuant to the Company's SAYE and SIP Schemes, which are available for all employees. The rules of these schemes require that all options granted must be on the same terms.	Executives Directors may enter into a contract to save up to an agreed saving limit in line with all colleagues in the business and HMRC guidelines.
No change to policy from 2014 vote.			
Share retention guidelines	To further align the interests of Executive Directors to those of shareholders.	Executive Directors are required to build up a shareholding of 200% of base salary within five years of appointment. This is achieved through vested awards granted via the PSP and deferred bonus shares.	n/a
Proposed change for 2017 policy vote The current share retention guideline is for the Chief Executive to hold 150% of salary and other Executive Directors 100% of salary in Greggs shares. The Committee proposes to increase the minimum share retention guideline of 200% of salary for all Executive Directors.			

Non-Executive Directors

Element	Purpose and strategy	Operation	Maximum opportunity
Non-Executive Chairman and Directors' fees	To attract and retain high quality and experienced Non-Executive Chairman and Directors.	The Chairman is paid an all-encompassing fee. Non-Executive Directors are paid a basic fee and the Chairs of the Main Board Committees and the Senior Independent Director (SID) are paid an additional fee to reflect their additional responsibilities. Where the SID role is combined with that of chairing a Committee then only one fee is paid. These fees are reviewed and set annually in December and implemented from 1 January. Non-Executive Directors are not eligible for pension scheme membership, bonus or incentive arrangements. They are entitled to reimbursement of reasonable business expenses and tax thereon. They may also receive limited travel or accommodation – related benefits in connection with their role as a Director.	There is no prescribed maximum.
No change to policy from 2014 vote.			

REMUNERATION COMMITTEE REPORT CONTINUED

Difference in remuneration policy across the Group

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

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

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

With the SIP, all colleagues may purchase Company shares from pre-tax salary subject to HMRC limits. After six months' service all colleagues are eligible to participate in the profit-sharing scheme in which all colleagues share 10 per cent of our profits.

Policy discretion

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

- who participates;
- the timing of the grant of award and/or payment;
- the size of an award (up to plan/policy limits) and/or a payment;
- discretion relating to the measurement of performance in the event of a change of control or reconstruction;
- determination of a good leaver (in addition to any specified categories) for incentive plan purposes and the treatment of leavers;
- adjustments required in certain circumstances (e.g. rights issues, corporate restructuring and special dividends); and
- the ability to adjust existing performance conditions for exceptional events so that they can still fulfil their original purpose.

Legacy arrangements

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

Policy on recruitment remuneration

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

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

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

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

Service contracts and policy on cessation

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

Provision	Detailed terms
Remuneration	– Salary, pension and benefits; – company car or cash allowance; – private medical health care for the Director; – permanent health insurance; – participation in annual bonus and profit share (subject to scheme rules); – participation in long-term incentive schemes or similar arrangements (subject to scheme rules); and – life assurance.
Notice period	– Chief Executive's contract is terminable on 12 months' notice served by either the Company or the Director; – other Executive Directors' service contracts are terminable on 12 months' notice served by the Company or by six months' notice served by the Director; and – any future Executive Directors' service contracts will be terminable on 12 months' notice served by either party.
Termination payment	– Payment in lieu of notice equal to any unexpired notice of termination given by either party; and – payment in lieu shall not include: – any bonus payment; – any payment in respect of benefits which the Director would have been entitled to receive; and – any payment in respect of any holiday entitlement that would have accrued during the period for which the payment in lieu is made. Details of the circumstances in which the Committee has the ability to exercise discretion with regards to termination payments are set out below.

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

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

- annual bonus may be payable pro-rated for that part of the year worked;
- deferred bonus shares must normally be retained in trust until the end of their two-year holding period and will be subject to recovery and withholding in the event of misstatement of performance, error or misconduct, where this has led to an overpayment in the view of the Committee for a period of three years from the payment date;
- any unvested awards held under the PSP will lapse at cessation, unless the individual is leaving in good leaver circumstances (defined under the plan as death, injury, ill-health, disability, redundancy, retirement, his office or employment being with either a company which ceases to be a Group member or relating to a business or part of a business which is transferred to a person who is not a Group member, a change of control or any other reason the Committee so decides). In these circumstances, unvested awards will normally vest at the normal vesting date (other than on death or where the Committee decides they should vest at cessation) subject to performance conditions being met and scaling back in respect of actual service as a proportion of the total vesting period (unless the Committee decides that scaling back is inappropriate). Vested awards will normally be subject to the mandatory two-year holding period although the Committee will have discretion to waive this in exceptional circumstances; and
- the Committee may agree to payment of disbursements such as legal costs and outplacement services if appropriate and depending on the circumstances of cessation.

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

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

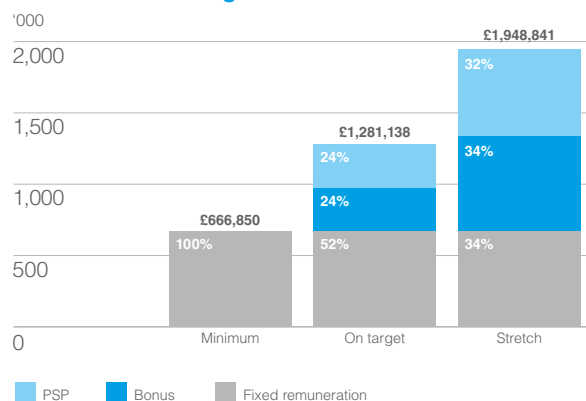
The service contracts are available for inspection during normal business hours at the Company's registered office, and are available for inspection at the AGM.

REMUNERATION COMMITTEE REPORT CONTINUED

Expected value of the proposed annual remuneration package for Executive Directors

The following charts indicate the level of remuneration payable to Executive Directors in respect of 2017 based on policy at 'minimum' remuneration, remuneration in line with 'on target' Company performance and the maximum remuneration available for stretch performance.

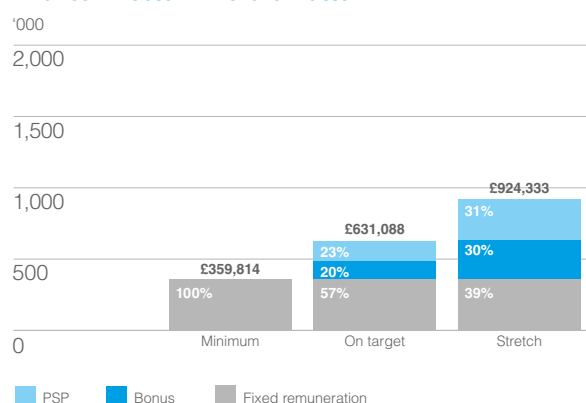
Chief Executive – Roger Whiteside



	Minimum	On target	Stretch
Fixed remuneration:			
salary	£534,163	£534,163	£534,163
pension	£120,187	£120,187	£120,187
benefits	£12,500	£12,500	£12,500
Bonus	–	£307,144	£667,704
Performance Share Plan	–	£307,144	£614,287
Total	£666,850	£1,281,138	£1,948,841

On target PSP is calculated as 50 per cent of 115 per cent of salary and stretch as 100 per cent of 115 per cent of salary.

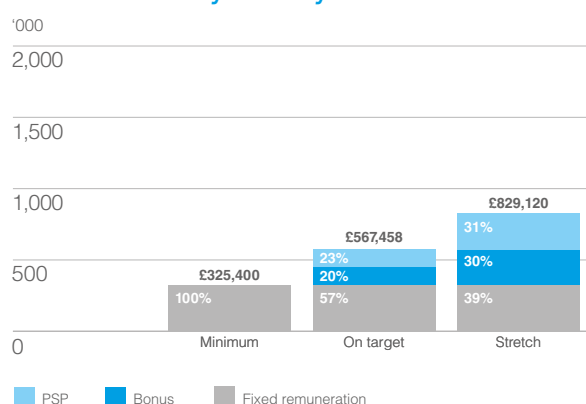
Finance Director – Richard Hutton



	Minimum	On target	Stretch
Fixed remuneration:			
salary	£305,145	£305,145	£305,145
pension	£39,669	£39,669	£39,669
benefits	£15,000	£15,000	£15,000
Bonus	–	£126,330	£274,631
Performance Share Plan	–	£144,944	£289,888
Total	£359,814	£631,088	£924,333

On target PSP is calculated as 50 per cent of 95 per cent of salary and stretch as 100 per cent of 95 per cent of salary.

Retail Director – Raymond Reynolds



	Minimum	On target	Stretch
Fixed remuneration:			
salary	£272,281	£272,281	£272,281
pension	£38,119	£38,119	£38,119
benefits	£15,000	£15,000	£15,000
Bonus	–	£112,725	£245,053
Performance Share Plan	–	£129,333	£258,667
Total	£325,400	£567,458	£829,120

On target PSP is calculated as 50 per cent of 95 per cent of salary and stretch as 100 per cent of 95 per cent of salary.

Assumptions used in the charts:

Minimum remuneration assumes no award is earned under the annual bonus plan and no vesting is achieved under the PSP.

On target remuneration assumes the target level is reached for each of the elements under the annual bonus plan and 50 per cent vesting is achieved under the PSP.

Maximum remuneration assumes full vesting under the annual bonus plan and PSP.

Base salary levels as at 1 January 2017.

The value of taxable benefits is based on the cost of supplying those benefits (as disclosed) for the 52 weeks ended 31 December 2016.

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.

Annual remuneration report

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

Outlined below are the current Remuneration Committee members and the date they joined the Committee:

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

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

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

The Committee maintains an active dialogue with institutional investors and shareholder representatives and although the Committee does not currently consult with employees on Directors pay policy this is kept under review.

Summary of Committee activity during 2016

During 2016 the Committee has:

- Conducted an extensive review of the current remuneration policy.
- Considered both internal and external references points in the completion of this review.
- Undertaken a formal shareholder investor consultation.
- Discussed and reviewed Directors' salaries.
- Discussed and reviewed bonus percentage, bonus metrics and bonus deferral.
- Discussed and reviewed the level of PSP awards for Directors and recommended an increase which ensures PSP awards remain below mid-market levels.
- Discussed and reviewed the targets for bonus and PSP for the year ahead.
- Approved grants under the share options scheme (to senior managers below Operating Board level) and the Company SAYE scheme.
- Reviewed and proposed new share retention guidelines for Directors.

Structure and content of the remuneration report

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

The Regulations also require our auditor to report to shareholders on the audited information within this remuneration report and to state whether, in their opinion, the relevant sections have been prepared in accordance with the Act and the Regulations. The auditor's opinion is set out on pages 74 to 76 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) and Roisin Currie (People Director) are normally invited to attend the Committee meetings in order to provide advice and support to the Committee. During the year NBS, part of Aon plc, supported the Committee.

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

Fees paid to NBS during the year were £47,000.

REMUNERATION COMMITTEE REPORT CONTINUED

Shareholder dialogue

The voting outcome from the 2016 AGM reflected both strong individual and institutional shareholder support. We have undertaken a formal consultation with our largest shareholders this year as part of our extensive review of our remuneration policy, the majority of whom were supportive and we would welcome feedback from shareholders on any issue related to executive remuneration.

As a result, shareholders will be asked to approve our new policy report at the AGM in 2017. We will continue to engage with shareholders to understand any concerns they may have about our policy and its implementation during the life of the new policy.

The following table sets out the votes from shareholders that the Directors' remuneration report received at the 2016 AGM:

	Approve the remuneration report	
	Total number of votes	% of votes cast
For	65,363,035	99.73%
Against	180,238	0.27%
Total votes cast (excluding votes withheld)	65,543,273	100%
Votes withheld	170,158	
Total votes cast (including votes withheld)	65,713,431	

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

How our remuneration policy will be implemented in 2017 – Executive Directors

The section below summarises the implementation of our remuneration policy for 2017.

Base salary 2017

The annual base salaries for the Executive Directors were reviewed with effect from 1 January 2017; increases and current salaries are outlined below:

Director	Salary as at 1 January 2016	Salary as at 1 January 2017	% increase
Roger Whiteside (Chief Executive)	£521,135	£534,163	2.5%
Richard Hutton	£297,702	£305,145	2.5%
Raymond Reynolds	£265,641	£272,282	2.5%

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

Pension contribution 2017

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

Roger Whiteside	22.5%
Raymond Reynolds	14%
Richard Hutton	13%

Annual bonus 2017

The annual bonus opportunity for 2017 is outlined below:

Chief Executive	– Maximum opportunity of 125% of base salary. – On target performance will deliver a bonus of 46% of maximum. – Bonus in excess of 50% of maximum will be payable in shares deferred for two years.
Executive Directors	– Maximum opportunity of 90% of base salary. – On target performance will deliver a bonus of 46% of maximum. – Bonus in excess of 50% of maximum will be payable in shares deferred for two years.

The bonus metrics are:

Profit	Sales	Strategic objectives
50% of total	20% of total	30% of total
This will be based on meeting and exceeding budget for the year	Based on company-managed shop like-for-like sales excluding any additional shops opened during the bonus year	Detailed below

The strategic objectives for each bonus cycle will be based on measures which will provide a strong link to future value creation. For the 2017 bonus the three strategic objectives, each relating to 10 per cent of the bonus opportunity, will be:

- Cost savings.
- Specific project delivery within our change programme regarding processes and systems with three elements measured independently; one element being worth five per cent and two elements being worth 2.5 per cent each.
- Specific project delivery within our programme for supply chain restructuring with three elements measured independently; one element being worth five per cent and two elements being worth 2.5 per cent each.

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 levels of performance.

There will be an underpin to the sales and strategic objectives elements of the bonus whereby any payment under these elements may be scaled back (potentially to zero) at the discretion of the Committee, 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.

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

PSP award 2017

PSP awards will be granted as follows:

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

Performance conditions will be based on an equal split of two different financial measures, EPS and ROCE (for discrete parts of an award)*. The Committee took into consideration the increased award levels for 2017 and this has been reflected in the targets that have been set for each metric which also reflect the strategic plan and business outlook over the performance period. Consequently, the EPS and ROCE ranges have been increased to ensure that they remain appropriately stretching in light of our business strategy without encouraging undue risk taking.

For the 2017 awards the target ranges will be as follows:

- The EPS performance condition will require average annual growth of EPS of five per cent to 11 per cent over three financial years measured from the 2016 financial year end.
- The ROCE condition will require average annual ROCE over the three-year performance period (2017, 2018 and 2019) to be in the range 23 per cent to 27 per cent.

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

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

* EPS and ROCE are measured excluding exceptional items.

REMUNERATION COMMITTEE REPORT CONTINUED

How our remuneration policy will be implemented in 2017 – Non-Executive Directors

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

These fees are reviewed and set annually in December and implemented from 1 January. The fees for Non-Executive Directors increased by 2.5 per cent on 1 January 2017 in line with the base award for our whole workforce in 2017.

The Non-Executive Directors are paid an annual base fee which is currently £43,424 and additional responsibility fees of £6,456 for the role of Senior Independent Director (SID) or for chairing a Board Committee. Where the SID role is combined with the role of chairing a Committee then only one fee of £6,456 will be paid.

Details of the fees being paid to Non-Executive Directors in 2017 are set out below:

Ian Durant	£163,244	Chairman
Allison Kirkby	£49,880	Chair of the Audit Committee
Helena Ganczakowski	£43,424	Non-Executive Director
Peter McPhillips	£43,424	Non-Executive Director
Sandra Turner	£49,880	SID & Chair of the Remuneration Committee

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:

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

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

How our remuneration policy was implemented in 2016 (audited)

Single remuneration figure 2016

The following table presents the remuneration payable for 2016 (showing the equivalent figures for 2015) for the Executive Directors:

	Salary £	Pension contribution (including salary in lieu) £	Taxable benefits £	Annual incentives (including profit share) £	Long-term incentives ¹ £	Total remuneration £
Roger Whiteside						
2016	521,135	117,255	12,408	564,780	856,291	2,071,869
2015	507,188	114,118	12,397	594,043	1,234,447	2,462,193
Richard Hutton						
2016	297,702	30,582	15,298	232,297	380,452	956,331
2015	289,736	37,233	13,659	244,334	448,753	1,033,715
Raymond Reynolds						
2016	265,641	32,680	14,833	207,280	339,484	859,918
2015	258,530	31,804	13,949	218,019	400,422	922,724

1 The 2016 long-term incentive vesting values are based on the forecast value of the awards due to vest on 17 March 2017 (50 per cent of the award is based on EPS performance measured over the three financial years to 31 December 2016 and 50 per cent of the award is based on average annual ROCE measured over the three years to 31 December 2016). The EPS performance measured to 31 December 2016 exceeded the maximum performance conditions and 100 per cent of this part of the award is due to vest and forms part of the 2016 long-term incentive value. Average annual ROCE for the three years to 2016 exceeded the maximum performance requirement and 100 per cent of this part of the award is due to vest and forms part of the 2016 long-term incentive award. The share price for the purposes of valuing the award is the three-month average share price to 31 December 2016 (£9.4942). This value will be trued up in the 2017 report to reflect the actual level of vesting and share price at the vesting date. The 2015 long-term incentive value has been restated and reflects the actual value of the awards that vested in March 2016. Share price appreciation over the performance period to 31 December 2016 contributed materially to the total remuneration figure for 2015 and 2016. Details can be found in the tables on page 68.

Fees

The fees for Non-Executive Directors increased by 2.75 per cent on 1 January 2016 in line with the base award for our whole workforce in 2016. No detailed disclosure has been provided for Non-Executive Directors other than that relating to their fee, as this is the only form of remuneration they receive.

	2016	2015
Ian Durant	£159,263	£155,000
Allison Kirkby	£48,663	£47,361
Helena Ganczakowski	£42,365	£41,231
Peter McPhillips	£42,365	£41,231
Sandra Turner	£48,663	£47,361

Annual bonus 2016

The table below outlines the bonus payments to Executive Directors in respect of 2016.

Measure	Strategic objective		Weighting	Entry	Target	Stretch	Actual	% of maximum
All Executive Directors								
Profit (£)	Profit before tax (excluding exceptional items and property profits)	To deliver profit target	50%	£71.9m	£75.4m	£81.9m	£78.1m	38.3%
Sales (%)	Company-managed like-for-like sales	To deliver target increase	20%	1.5%	3.0%	4.5%	4.2%	18.4%
Strategic (%)	Customer transaction growth*		10%				Achieved	10.0%
Strategic (£)	Cost savings		10%	£2.65m	£6.65m	–	£7.15m	10.0%
Strategic (4 elements)	Process and system change delivery**		10%				Achieved	10.0%
Total weighting based on balanced scorecard			100%					86.7%

Bonus achieved for 2016

	As % of maximum
Roger Whiteside	86.7%
Richard Hutton	86.7%
Raymond Reynolds	86.7%

* As outlined in our 2015 Directors remuneration report, customer transaction growth was one strategic element of our 2016 business plan and therefore 10 per cent of the total potential bonus opportunity was attributed to this. We set this metric with a sliding scale from a trigger point up to the maximum 10 per cent. This element of our bonus plan has delivered the full 10 per cent as a result of the maximum being exceeded by 0.85 per cent.

** Project milestones	Criteria	Payment of 10% total
Purchase to Pay	Delivered and operational by end of HY2016	2.5%
Product Lifecycle Management	Delivered and operational by end of HY2016	2.5%
Finance	Delivered and operational by end of HY2016	2.5%
30 Shop pilot	Pilot in place by end of FY2016	2.5%

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

The number of shares will be calculated by dividing 36.7 per cent of the net bonus by the closing market share value on the date of payment.

Details of the shares awarded in 2016 for the 2015 bonus year are outlined below:

Director	Number of shares awarded
Roger Whiteside	13,202
Richard Hutton	5,424
Raymond Reynolds	4,840

REMUNERATION COMMITTEE REPORT CONTINUED

Performance share plans

The PSP award granted in 2013 measured EPS performance by reference to the three financial years to 2 January 2016 and TSR performance by reference to the three years from date of grant. The performance targets that were set, together with the performance delivered, are set out in the table below. This table provides an update on the vesting level estimated for this award in last year's annual report on remuneration.

Metric	Condition	Threshold target	Stretch target	Actual	% vesting
Earnings per share (50%)	Normalised EPS* growth of RPI + 3% p.a. to RPI + 8% p.a. over three financial years.	RPI +3% (12.5% vesting)	RPI +8% (100% vesting)	RPI +14%	50%
Total shareholder return (50%)	TSR against a peer group of 16 companies' TSR measured over three years with a one-month average at the start and end of the performance period.	50th percentile (12.5% vesting)	75th percentile (100% vesting)	94th percentile	50%
Total vesting					100%**

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

** Estimated last year at 100 per cent.

This PSP award vested on 27 March 2016.

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

Executive	Number of shares at grant	Value at grant ¹	Vesting outcome	Number of shares to vest	Estimated value ²	Value attributable to share price growth
Roger Whiteside	113,252	£536,248	100%	113,252	£1,234,447	£698,199
Richard Hutton	41,170	£194,939	100%	41,170	£448,753	£253,814
Raymond Reynolds	36,736	£173,945	100%	36,736	£400,422	£226,477

¹ Based on a share price at grant of £4.735.

² Based on a share price at vesting of £10.90.

The PSP award granted in 2014 measured EPS performance by reference to the three financial years to 31 December 2016 and average annual ROCE over the three-year performance period 2014 to 2016. The performance targets that were set, together with the performance delivered, are set out in the table below.

Metric	Condition	Threshold target	Stretch target	Actual	% vesting
Earnings per share (50%)	Normalised EPS* growth of RPI +1% p.a. to RPI +4% p.a. over three financial years.	RPI +1% (12.5% vesting)	RPI +4% (100% vesting)	RPI +32.0%	50%
ROCE (50%)	Average annual ROCE over the three-year performance period.	15.5% (12.5% vesting)	17.0% (100% vesting)	25.8%	50%
Total vesting					100%

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

These options will vest on 17 March 2017.

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

Executive	Number of shares at grant	Value at grant ¹	Vesting outcome	Number of shares to vest	Estimated value ²	Value attributable to share price growth
Roger Whiteside	90,191	£445,769	100%	90,191	£865,913	£410,144
Richard Hutton	40,072	£198,056	100%	40,072	£380,283	£182,227
Raymond Reynolds	35,757	£176,729	100%	35,757	£339,334	£162,605

¹ Based on a share price at grant of £4.9425.

² Based on three-month average share price to 31 December 2016 of £9.4942.

Note: All shares subject to a two-year post-vesting holding period.

Performance share plan awards granted during 2016 are as follows:

Executive	Type of award	Basis of award granted	Share price at date of grant (21 March 2016)	Number of shares over which award was granted	Face value of award	% of face value that would vest at threshold performance	Vesting determined by performance over
Roger Whiteside	nil cost option	90% of salary	£11.02	42,560	£469,011	25%	Three financial years to 29 December 2018
Richard Hutton		70% of salary	£11.02	18,910	£208,388		
Raymond Reynolds		70% of salary	£11.02	16,873	£185,940		

The target ranges for this award are as follows:

- EPS average annual growth of RPI + two per cent to eight per cent over three years from the 2015 financial year end.
- Average annual ROCE over the three-year performance period (2016, 2017 and 2018) to be in the range 22 per cent to 27 per cent.

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

Outstanding share awards

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

	At 3 January 2016 number	Granted number	Exercised number	Lapsed number	At 31 December 2016 number	Exercise price	Date of grant	Market price of each share at date of grant	Date from which exercisable	Expiry date	Scheme
Roger Whiteside	113,252	–	113,252 ²	–	–	£nil	Mar 13	£4.735	Mar 16	Mar 23	PSP
	90,191	–	–	–	90,191	£nil	Mar 14	£4.9425	Mar 17	Mar 24	PSP
	44,103	–	–	–	44,103	£nil	Mar 15	£10.350	Mar 18	Mar 25	PSP
	–	42,560	–	–	42,560	£nil	Mar 16	£11.020	Mar 19	Mar 26	PSP
	449	–	–	–	449	£4.65	Apr 14		Jun 17	Nov 17	SAYE
	215	–	–	–	215	£8.18	Apr 15		Jun 18	Nov 18	SAYE
	–	148	–	–	148	£8.70	Apr 16		Jun 19	Nov 19	SAYE
	248,210	42,708	113,252	–	177,666						
Richard Hutton	41,170	–	41,170 ³	–	–	£nil	Mar 13	£4.735	Mar 16	Mar 23	PSP
	40,072	–	–	–	40,072	£nil	Mar 14	£4.9425	Mar 17	Mar 24	PSP
	19,595	–	–	–	19,595	£nil	Mar 15	£10.350	Mar 18	Mar 25	PSP
	–	18,910	–	–	18,910	£nil	Mar 16	£11.020	Mar 19	Mar 26	PSP
	400	–	400 ⁴	–	–	£4.14	Apr 13		Jun 16	Nov 16	SAYE
	449	–	–	–	449	£4.65	Apr 14		Jun 17	Nov 17	SAYE
	215	–	–	–	215	£8.18	Apr 15		Jun 18	Nov 18	SAYE
	–	148	–	–	148	£8.70	Apr 16		Jun 19	Nov 19	SAYE
	101,901	19,058	41,570	–	79,389						
Raymond Reynolds	62,640	–	–	–	62,640 ¹	£3.56	Apr 09		Apr 12	Apr 19	Exec
	12,125	–	–	–	12,125	£nil	Apr 12	£5.260	Apr 15	Apr 22	PSP
	36,736	–	–	–	36,736	£nil	Mar 13	£4.735	Mar 16	Mar 23	PSP
	35,757	–	–	–	35,757	£nil	Mar 14	£4.9425	Mar 17	Mar 24	PSP
	17,485	–	–	–	17,485	£nil	Mar 15	£10.350	Mar 18	Mar 25	PSP
	–	16,873	–	–	16,873	£nil	Mar 16	£11.020	Mar 19	Mar 26	PSP
	400	–	400 ⁵	–	–	£4.14	Apr 13		Jun 16	Nov 16	SAYE
	449	–	–	–	449	£4.65	Apr 14		Jun 17	Nov 17	SAYE
	–	148	–	–	148	£8.70	Apr 16		Jun 19	Nov 19	SAYE
	165,592	17,021	400	–	182,213						

1 Performance conditions have been achieved and the options remain exercisable.

2 The market value on the date of exercise was £10.870 and the resultant gain on exercise was £1,231,049.

3 The market value on the date of exercise was £10.500 and the resultant gain on exercise was £432,277.

4 The market value on the date of exercise was £11.290 and the resultant gain on exercise was £2,860.

5 The market value on the date of exercise was £9.145 and the resultant gain on exercise was £2,002.

REMUNERATION COMMITTEE REPORT CONTINUED

Outstanding share awards continued

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

The mid-market price of ordinary shares in the Company as at 31 December 2016 was £9.70. The highest and lowest mid-market prices of ordinary shares during the financial year were £12.76 and £8.84 respectively.

Legacy defined benefit pension scheme (audited)

The following table sets out the change in each Director's accrued pension in the Company's defined benefit scheme during the year and his accrued benefits in the scheme at the yearend:

Executive Director	Date of birth	Date service commenced	Accrued annual pension entitlement as at 2 January 2016 £	Accrued annual pension entitlement as at 31 December 2016 £	Increase in accrued pension entitlement for the year £	Increase in accrued pension entitlement for the year net of inflation of 1.2% £	Transfer value of increase in accrued pension entitlement for the year £
Richard Hutton	3/6/68	1/1/98	18,522	18,522	—	—	—
Raymond Reynolds	4/11/59	1/12/86	69,535	69,535	—	—	—

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

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

	Cash equivalent transfer value as at 2 January 2016 £	Cash equivalent transfer value as at 31 December 2016 £	Increase in the cash equivalent transfer value since 2 January 2016 £
Richard Hutton	278,220	386,456	—
Raymond Reynolds	1,340,108	1,669,402	—

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

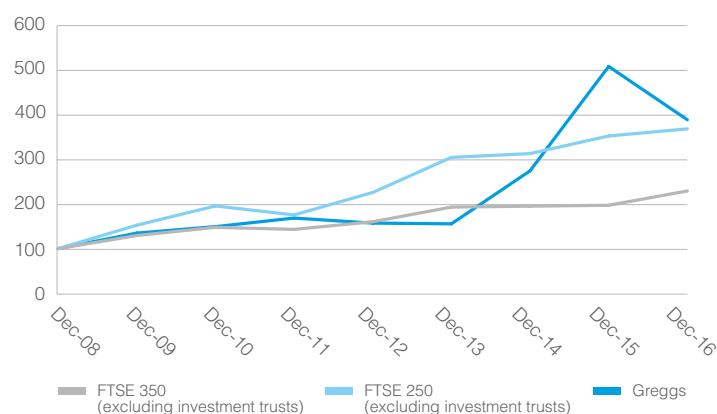
The main features of the defined benefit scheme are:

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

Chief Executive pay compared to performance

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

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



Remuneration outcomes for Chief Executive over the last eight years

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

	2009	2010	2011	2012	2013	2014	2015	2016
Total remuneration	£646,313	£767,397	£707,245	£635,030	£1,011,381	£1,238,248	£2,462,193	£2,071,869
Bonus (% of max potential)	30%	56.6%	38.6%	18%	20%*	100%	93.7%	86.7%
PSP/options (% max potential)	n/a	n/a	0%	78.3%	n/a	n/a	100%	100%

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

Directors' shareholdings and share interests (audited)

Details of the shareholdings of each Executive Director as at 31 December 2016 and their interests in shares of the Company are detailed below with the percentage holding calculated using the share price at that date:

Director	Beneficially owned at 31 December 2016	Beneficially owned at 2 January 2016	Outstanding PSP awards	Outstanding deferred bonus awards	Outstanding option awards	Shareholding as a % of salary at 31 December 2016
Roger Whiteside*	135,563	75,998	176,854	—	—	252%
Richard Hutton	78,094	77,923	78,577	—	—	254%
Raymond Reynolds	64,484	59,244	118,976	—	62,640	235%
Ian Durant	11,700	11,700	—	—	—	n/a
Allison Kirkby	1,600	1,600	—	—	—	n/a
Helena Ganczakowski	1,000	1,000	—	—	—	n/a
Peter McPhillips	1,000	500	—	—	—	n/a
Sandra Turner	1,000	1,000	—	—	—	n/a

* As disclosed in a previous Directors' Remuneration Report, 60,000 of these shares were granted to Roger Whiteside as a transitional bonus in compensation for his loss of bonus from his previous employer. The award of half of the shares was deferred for two years and the other half for three years but were not subject to performance conditions other than continuity of employment and not having resigned or been given notice of termination when the respective award was due to vest. The first 30,000 shares vested unconditionally during 2015 and the remaining 30,000 vested unconditionally in 2016. This award was subject to tax and NI in respect of the award of the shares.

Exit payments or payments to past Directors (audited)

There were no payments to past Directors in the 52 weeks ended 31 December 2016. No payments for compensation or loss of office were paid to, or receivable by, any Director.

External directorships

Executive Directors may take up one Non-Executive directorship outside of the Company subject to the Board's approval and provided that such an appointment is not likely to lead to a conflict of interest. It is recognised that this can support a Director's development and enhance experience as well as benefit the Company. Executive Directors will be entitled to retain the fees of such an appointment. There are none currently in place.

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.

	2016 £m	2015 £m	% increase/ (decrease)
All colleague costs	336.9	314.0	7.3%
Dividends	30.9	43.7	(29.3%)
Retained profit (excluding exceptional items)	62.3	57.6	8.2%
Corporation Tax	17.1	15.4	11.0%

REMUNERATION COMMITTEE REPORT CONTINUED

Percentage change in remuneration of Director undertaking the role of Chief Executive

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

	% change from 2015 to 2016
Chief Executive (£)	
– salary	2.75%
– benefits	0.1%
– performance pay	(22%)
Average per colleague (£)	
– salary	3.8%
– benefits ²	17.0%
– performance pay	0.66%

² The average employee benefits figure is based on tax year 2014/15 for 2015 and tax year 2015/16 for 2016.

At the AGM of the Company to be held on 19 May 2017, ordinary resolutions will be proposed approving the annual report on remuneration, the new policy report for the next three years and the amendment to the PSP rules.

This report was approved by the Board on 28 February 2017.

Signed on behalf of the Board

Sandra Turner

Chair of the Remuneration Committee

28 February 2017

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

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

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

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

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

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

Under applicable law and regulations, the Directors are also responsible for preparing a strategic report, Directors' report, Directors' remuneration report and corporate governance statement that complies with that law and those regulations.

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

Responsibility statement of the Directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- the accounts, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the 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
28 February 2017

Richard Hutton
Finance Director



Opinions and conclusions arising from our audit

1. Our opinion on the accounts is unmodified

We have audited the accounts of Greggs plc for the 52 weeks ended 31 December 2016 set out on pages 77 to 109.

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 31 December 2016 and of the Group's profit for the period then ended;
- the Group accounts have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the Parent Company accounts have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the accounts have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group accounts, Article 4 of the IAS Regulation.

Overview

Materiality:	£3.9m (2015:£3.6m)	
Group accounts as a whole	5% (2015: 5%) of Group profit before tax excluding exceptional items	
Coverage	100% (2015:100%) of Group profit before tax excluding exceptional items	
Risks of material misstatement	vs 2015	
Recurring risks	Retail property provisions	▼
Event driven	Supply site investment proposals	▲
		New risk

2. Our assessment of risks of material misstatement

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

	The risk	Our response
Supply site investment proposals (Exceptional items excluding credits in relation to items from prior years £6.8 million; 2015: £nil) Refer to page 53 (Audit Committee Report), page 83 to 86 (accounting policy) and pages 90, 95 and 106 (financial disclosures).	Accounting treatment In March 2016 the Group announced a large scale investment programme in manufacturing and distribution operations. The programme involves the closure of certain supply sites and the consolidation of certain forms of manufacturing across the Group. Since the period end, the Group has communicated proposals for the next phase of this programme which involves further consolidating manufacturing operations. The phase of the programme announced within the period results in the need for provisions in respect of restructuring costs.	Our audit procedures included: – Testing application: We inspected the total costs of the programme and evaluated whether any costs provided for related to future services. We critically assessed whether the restructuring provisions met the accounting standard criteria for recognition at the period end, including considering the timings of communications and presence of contractual obligations.
	There is a risk that certain costs may be provided for which are future operating costs and therefore do not meet the accounting standard criteria for recognition. There is a further risk that provisions may be recognised for which the criteria were not met as at the balance sheet date due to the programme spanning a number of years.	– Assessing transparency: We assessed the adequacy of the Group's disclosures in the notes to the accounts about the degree of estimation involved in arriving at the provisions.
	Subjective valuation The programme gives rise to the need to reassess the useful economic lives of property, plant and equipment and estimate the recoverable amount of assets, both of which are inherently judgemental.	– Comparing valuations: We critically assessed assumptions around useful economic lives of assets with reference to the Group's detailed plans. We considered whether the carrying value of the assets was appropriate with reference to market indicators such as external third party valuations or purchase offers received.
	Presentation appropriateness Determining whether charges should be presented as exceptional items, which affects how financial performance is reported, requires judgement and demonstration of their relation to the programme.	– Assessing application: We considered the classification of these costs as exceptional charges for the year and tested that costs presented as exceptional were incurred as a result of the programme with reference to internal plans and communications.



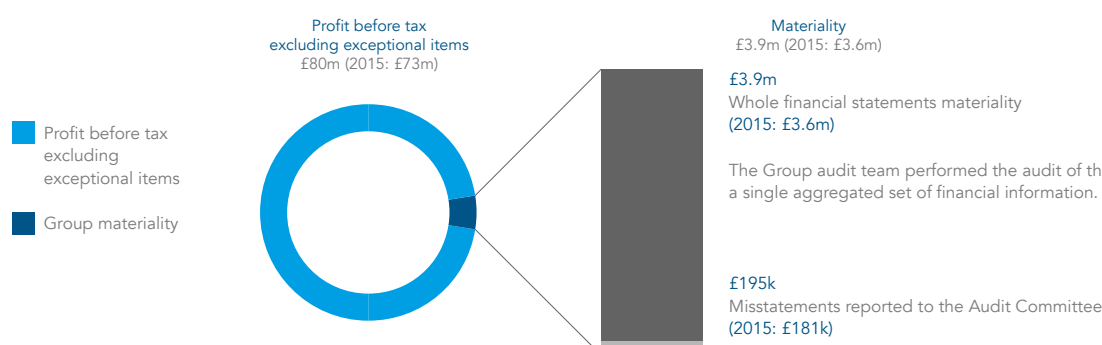
	The risk	Our response
Retail property provisions (£5.1 million; 2015: £5.6 million) Refer to page 53 (Audit Committee Report), page 83 to 86 (accounting policy) and page 106 (financial disclosures)	Omitted exposure The Group leases the majority of its shops and has circa 1,500 shop leases at the end of the period. Where shops are closed prior to the end of the lease term or are not trading sufficiently well to recover the committed lease costs an element of the lease may be onerous. Given the large number of shops the Group leases, and the individual shop-level considerations required to identify a provision, there is a risk that not all onerous leases are identified. Subjective estimate Determining the level of onerous lease provisions involves estimation of the length of time and cost at which lease arrangements can be exited or sublet and forecasting future cash flows, which are inherently uncertain. For the majority of shop leases the Group has obligations to restore shops to a certain condition at the end of a lease and provisions may be required for the costs of doing so. Determining dilapidation provisions involves estimation of the costs anticipated to make good any alterations to properties and consideration of obligations present in lease agreements. Both of these factors can vary significantly between shops.	Our audit procedures included: – Comparisons: We identified shops closed during the year and poorly performing shops. We compared the list of shops identified to the population of onerous lease provisions and challenged explanations for any that were not provided. – Our sector experience: For onerous lease provisions in respect of closed shops we critically assessed the Directors' estimate of total costs to exit the lease by challenging key assumptions including the time it would take to exit, the level of incentives to sublease or penalties to be paid to landlords and other costs to exit or sublet a shop. We also considered the location of each closed shop and the impact this may have on the time and costs expected to exit these leases as well as the possible income from subletting these shops if possible. In respect of dilapidation provisions we considered specific issues on certain Group properties, such as the shops which previously had in-store bakeries, and critically assessed the impact of these on the likely level of dilapidation costs. – Benchmarking assumptions: We compared assumptions surrounding the timing of exiting leases and the costs of doing so to expectations of in-house property surveyors and third party agents. We also compared these assumptions with post period end third party evidence such as offers made and sublease or surrender agreements. – Historical comparisons: For onerous leases we considered the historical experience of the Group at exiting similar properties and the costs involved in doing so. We considered the historical experience of the Group in respect of likely level of dilapidation costs. – Assessing transparency: We also considered the adequacy of the Group's disclosures about the degree of estimation involved in arriving at the provisions.

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

The materiality for the accounts as a whole was set at £3.9m (2015: £3.6 million), determined with reference to a benchmark of Group profit before tax normalised to exclude exceptional items of which it represents five per cent (2015: determined with reference to a benchmark of Group profit before tax, of which it represents five per cent). The Group team performed procedures on the items excluded from normalised Group profit before tax.

We report to the Audit Committee any corrected or uncorrected misstatements identified exceeding £195,000 (2015: £181,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

The Group audit team performed the audit of the Group as if it was a single aggregated set of financial information which covered 100% (2015: 100%) of total Group revenue, Group profit before tax and total Group assets. The audit was performed using the materiality levels set out above.





4. Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

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

Based solely on the work required to be undertaken in the course of the audit of the accounts and from reading the Strategic Report and the Directors' Report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

5. We have nothing to report on the disclosures of principal risks

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

- the Directors' viability statement on page 41, concerning the principal risks, their management, and, based on that, the Directors' assessment and expectations of the Group's continuing in operation over the three years to 2019; or
- the disclosures on page 82 concerning the use of the going concern basis of accounting.

6. We have nothing to report in respect of the matters on which we are required to report by exception

- Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the accounts, a material misstatement of fact, or that is otherwise misleading.

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

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

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

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

Under the Listing Rules we are required to review:

- the Directors' statements, set out on pages 41 and 82, in relation to going concern and longer-term viability; and
- the part of the Corporate Governance Statement on page 45 relating to the Company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review.

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

Scope and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 73, the Directors are responsible for the preparation of the accounts and for being satisfied that they give a true and fair view. A description of the scope of an audit of accounts is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2014a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Mick Thompson

(Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor, Chartered Accountants
Quayside House
110 Quayside
Newcastle Upon Tyne
NE1 3DX
28 February 2017

CONSOLIDATED INCOME STATEMENT

for the 52 weeks ended 31 December 2016 (2015: 52 weeks ended 2 January 2016)

	Note	2016 Excluding exceptional items £'000	2016 Exceptional items (see Note 4) £'000	2016 Total £'000	2015 Total £'000
Revenue	1	894,195	–	894,195	835,749
Cost of sales		(324,289)	(4,367)	(328,656)	(305,116)
Gross profit		569,906	(4,367)	565,539	530,633
Distribution and selling costs		(441,246)	(594)	(441,840)	(412,426)
Administrative expenses		(48,315)	(216)	(48,531)	(45,094)
Operating profit		80,345	(5,177)	75,168	73,113
Finance expense	6	(26)	–	(26)	(85)
Profit before tax	3-6	80,319	(5,177)	75,142	73,028
Income tax	8	(18,064)	915	(17,149)	(15,428)
Profit for the financial year attributable to equity holders of the Parent		62,255	(4,262)	57,993	57,600
Basic earnings per share	9	62.0p	(4.2p)	57.8p	57.3p
Diluted earnings per share	9	60.8p	(4.1p)	56.7p	55.8p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the 52 weeks ended 31 December 2016 (2015: 52 weeks ended 2 January 2016)

	Note	2016 £'000	2015 £'000
Profit for the financial year		57,993	57,600
Other comprehensive income			
<i>Items that will not be recycled to profit and loss:</i>			
Re-measurements on defined benefit pension plan	20	(18,791)	4,915
Tax on re-measurements on defined benefit pension plan	8	3,194	(885)
Other comprehensive income for the financial year, net of income tax		(15,597)	4,030
Total comprehensive income for the financial year		42,396	61,630

BALANCE SHEETS

at 31 December 2016 (2015: 2 January 2016)

		Group		Parent Company	
	Note	2016 £'000	2015 As restated (see page 82) £'000	2016 £'000	2015 As restated (see page 82) £'000
ASSETS					
Non-current assets					
Intangible assets	10	14,254	10,248	14,254	10,248
Property, plant and equipment	11	307,363	284,163	307,956	284,756
Investments	12	—	—	4,987	4,987
Deferred tax asset	13	1,750	3,830	2,199	4,305
		323,367	298,241	329,396	304,296
Current assets					
Inventories	14	15,934	15,444	15,934	15,444
Trade and other receivables	15	30,713	27,647	30,713	27,647
Cash and cash equivalents	16	45,960	42,915	45,960	42,915
		92,607	86,006	92,607	86,006
Total assets		415,974	384,247	422,003	390,302
LIABILITIES					
Current liabilities					
Trade and other payables	17	(104,924)	(92,780)	(112,731)	(100,587)
Current tax liability	18	(10,426)	(9,580)	(10,426)	(9,580)
Provisions	21	(6,088)	(4,265)	(6,088)	(4,265)
		(121,438)	(106,625)	(129,245)	(114,432)
Non-current liabilities					
Other payables	19	(5,599)	(6,071)	(5,599)	(6,071)
Defined benefit pension liability	20	(22,851)	(3,910)	(22,851)	(3,910)
Long-term provisions	21	(1,426)	(2,972)	(1,426)	(2,972)
		(29,876)	(12,953)	(29,876)	(12,953)
Total liabilities		(151,314)	(119,578)	(159,121)	(127,385)
Net assets		264,660	264,669	262,882	262,917
EQUITY					
Capital and reserves					
Issued capital	22	2,023	2,023	2,023	2,023
Share premium account		13,533	13,533	13,533	13,533
Capital redemption reserve	22	416	416	416	416
Retained earnings		248,688	248,697	246,910	246,945
Total equity attributable to equity holders of the Parent		264,660	264,669	262,882	262,917

The accounts on pages 77 to 109 were approved by the Board of Directors on 28 February 2017 and were signed on its behalf by:

Roger Whiteside
Richard Hutton

Company Registered Number 502851



STATEMENTS OF CHANGES IN EQUITY

for the 52 weeks ended 31 December 2016 (2015: 52 weeks ended 2 January 2016)

Group

52 weeks ended 2 January 2016

	Note	Attributable to equity holders of the Company				
		Issued capital £'000	Share premium £'000	Capital redemption reserve £'000	Retained earnings As restated (see page 82) £'000	Total As restated (see page 82) £'000
Balance at 4 January 2015		2,023	13,533	416	230,731	246,703
Total comprehensive income for the year						
Profit for the financial year		—	—	—	57,600	57,600
Other comprehensive income		—	—	—	4,030	4,030
Total comprehensive income for the year		—	—	—	61,630	61,630
Transactions with owners, recorded directly in equity						
Sale of own shares		—	—	—	3,876	3,876
Purchase of own shares		—	—	—	(11,125)	(11,125)
Share-based payment transactions	20	—	—	—	2,057	2,057
Dividends to equity holders	22	—	—	—	(43,714)	(43,714)
Tax items taken directly to reserves	8	—	—	—	5,242	5,242
Total transactions with owners		—	—	—	(43,664)	(43,664)
Balance at 2 January 2016		2,023	13,533	416	248,697	264,669

52 weeks ended 31 December 2016

	Note	Attributable to equity holders of the Company				
		Issued capital £'000	Share premium £'000	Capital redemption reserve £'000	Retained earnings £'000	Total £'000
Balance at 3 January 2016		2,023	13,533	416	248,697	264,669
Total comprehensive income for the year						
Profit for the financial year		—	—	—	57,993	57,993
Other comprehensive income		—	—	—	(15,597)	(15,597)
Total comprehensive income for the year		—	—	—	42,396	42,396
Transactions with owners, recorded directly in equity						
Sale of own shares		—	—	—	4,063	4,063
Purchase of own shares		—	—	—	(12,398)	(12,398)
Share-based payment transactions	20	—	—	—	1,994	1,994
Dividends to equity holders	22	—	—	—	(30,936)	(30,936)
Tax items taken directly to reserves	8	—	—	—	(5,128)	(5,128)
Total transactions with owners		—	—	—	(42,405)	(42,405)
Balance at 31 December 2016		2,023	13,533	416	248,688	264,660

STATEMENTS OF CHANGES IN EQUITY

for the 52 weeks ended 31 December 2016 (2015: 52 weeks ended 2 January 2016)

Parent Company

52 weeks ended 2 January 2016

	Note	Attributable to equity holders of the Company				
		Issued capital £'000	Share premium £'000	Capital redemption reserve £'000	Retained earnings As restated (see page 82) £'000	Total As restated (see page 82) £'000
Balance at 4 January 2015		2,023	13,533	416	229,031	245,003
Total comprehensive income for the year						
Profit for the financial year	7	—	—	—	57,548	57,548
Other comprehensive income		—	—	—	4,030	4,030
Total comprehensive income for the year		—	—	—	61,578	61,578
Transactions with owners, recorded directly in equity						
Sale of own shares		—	—	—	3,876	3,876
Purchase of own shares		—	—	—	(11,125)	(11,125)
Share-based payment transactions	20	—	—	—	2,057	2,057
Dividends to equity holders	22	—	—	—	(43,714)	(43,714)
Tax items taken directly to reserves	8	—	—	—	5,242	5,242
Total transactions with owners		—	—	—	(43,664)	(43,664)
Balance at 2 January 2016		2,023	13,533	416	246,945	262,917

52 weeks ended 31 December 2016

	Note	Attributable to equity holders of the Company				
		Issued capital £'000	Share premium £'000	Capital redemption reserve £'000	Retained earnings £'000	Total £'000
Balance at 3 January 2016		2,023	13,533	416	246,945	262,917
Total comprehensive income for the year						
Profit for the financial year	7	—	—	—	57,967	57,967
Other comprehensive income		—	—	—	(15,597)	(15,597)
Total comprehensive income for the year		—	—	—	42,370	42,370
Transactions with owners, recorded directly in equity						
Sale of own shares		—	—	—	4,063	4,063
Purchase of own shares		—	—	—	(12,398)	(12,398)
Share-based payment transactions	20	—	—	—	1,994	1,994
Dividends to equity holders	22	—	—	—	(30,936)	(30,936)
Tax items taken directly to reserves	8	—	—	—	(5,128)	(5,128)
Total transactions with owners		—	—	—	(42,405)	(42,405)
Balance at 31 December 2016		2,023	13,533	416	246,910	262,882



STATEMENTS OF CASHFLOWS

for the 52 weeks ended 31 December 2016 (2015: 52 weeks ended 2 January 2016)

	Note	Group		Parent Company	
		2016 £'000	2015 £'000	2016 £'000	2015 £'000
Operating activities					
Cash generated from operations (see below)		133,773	119,637	133,773	119,637
Income tax paid		(16,157)	(15,916)	(16,157)	(15,916)
Net cash inflow from operating activities		117,616	103,721	117,616	103,721
Investing activities					
Acquisition of property, plant and equipment		(74,016)	(65,785)	(74,016)	(65,785)
Acquisition of intangible assets		(6,106)	(5,981)	(6,106)	(5,981)
Proceeds from sale of property, plant and equipment		4,698	8,086	4,698	8,086
Interest received	6	124	222	124	222
Redemption of other investments		–	10,000	–	10,000
Net cash outflow from investing activities		(75,300)	(53,458)	(75,300)	(53,458)
Financing activities					
Sale of own shares		4,063	3,876	4,063	3,876
Purchase of own shares		(12,398)	(11,125)	(12,398)	(11,125)
Dividends paid	22	(30,936)	(43,714)	(30,936)	(43,714)
Net cash outflow from financing activities		(39,271)	(50,963)	(39,271)	(50,963)
Net increase/(decrease) in cash and cash equivalents		3,045	(700)	3,045	(700)
Cash and cash equivalents at the start of the year	16	42,915	43,615	42,915	43,615
Cash and cash equivalents at the end of the year	16	45,960	42,915	45,960	42,915

Cash flow statement – cash generated from operations

		2016 £'000	2015 As restated £'000	2016 £'000	2015 As restated £'000
Profit for the financial year		57,993	57,600	57,967	57,548
Amortisation	10	2,100	454	2,100	454
Depreciation	11	43,453	39,687	43,453	39,687
Impairment	11	488	66	488	66
Loss on sale of property, plant and equipment		2,476	2,952	2,476	2,952
Release of government grants		(472)	(484)	(472)	(484)
Share-based payment expenses	20	1,994	2,057	1,994	2,057
Finance expense	6	26	85	26	85
Income tax expense	8	17,149	15,428	17,175	15,480
Increase in inventories		(490)	(154)	(490)	(154)
Increase in receivables		(3,066)	(1,555)	(3,066)	(1,555)
Increase in payables		11,845	2,875	11,845	2,875
Increase in provisions		277	626	277	626
Cash from operating activities		133,773	119,637	133,773	119,637

NOTES TO THE CONSOLIDATED ACCOUNTS

Significant accounting policies

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

The accounts were authorised for issue by the Directors on 28 February 2017.

(a) Statement of compliance

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

(b) Basis of preparation

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

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Directors' report and strategic report on pages 3 to 73. The financial position of the Group, its cash flows and liquidity position are described in the financial review on pages 30 to 33. In addition, Note 2 to the accounts includes: the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

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

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

- Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation
- Annual Improvements to IFRSs – 2012-2014 Cycle
- Disclosure Initiative – Amendments to IAS 1

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

Restatement of comparatives

During 2015 a provision was recognised for the future employer's national insurance costs on share-settled option schemes where there is no requirement for the employee to reimburse these costs. This accounting is in accordance with IFRS 2. The charge was included within the share-based payments charge within the income statement with the credit being taken directly to reserves in line with the rest of the charge. It has been determined that the element of the charge relating to future national insurance costs should have been accounted for as a provision rather than directly to reserves. The impact of this for the 52 weeks ended 2 January 2016 is that the closing retained earnings reserve has been reduced by £1,605,000, current liability provisions have increased by £590,000 and long-term provisions have increased by £1,015,000. There is no impact on profit or cash flows.

Going concern

Directors have reviewed the Company's operational and investment plans for the next 12 months along with the principal risks and uncertainties that could affect these plans or threaten its liquidity. The key factors likely to affect future performance and the Company's exposure to risks are set out on pages 39 and 40 of the strategic report. In addition the financial review on pages 30 to 33 sets out the Company's net cash position and continued strong cash generation.

After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the next 12 months. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.



Key estimates and judgements

The preparation of financial information in conformity with adopted IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of revision and future years if the revision affects both current and future years.

Provisions

Provisions have been estimated for onerous leases and dilapidations. These provisions represent the best estimate of the liability at the balance sheet date. The key estimates and underlying assumptions made in determining provisions include:

- Likelihood of achieving an exit prior to the end of the lease through sublet or surrender and the cost of doing so; and
- Estimates of 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.

Expectations will be revised each period until the actual liability arises, with any difference accounted for in the period in which the revision is made.

Impairment of property, plant and equipment

Property, plant and equipment is reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable. For example, bakery equipment may be impaired if it is no longer in use and/or shop fittings may be impaired if sales in that shop fall. When a review for impairment is conducted the recoverable amount is estimated based on either value in use calculations or fair value less costs of disposal. Value in use calculations are based on management's estimates of future cash flows generated by the assets and an appropriate discount rate. Consideration is also given to whether the impairment assessments made in prior years remain appropriate based on the latest expectations in respect of recoverable amount. Where it is concluded that the impairment has reduced a reversal of the impairment is recorded.

The key judgements in assessing the recoverable amount for supply chain assets are determining remaining useful economic lives or how assets would be priced by market participants. The sensitivities for growth rate, discount rate and lease term used in testing shop assets for impairment have been considered and are deemed not significant. For instance, a two per cent change in the growth rate would result in a £7,000 change in the impairment charge.

Post-retirement benefits

The determination of the defined benefit obligation of the Group's defined benefit pension scheme depends on the selection of certain assumptions including the discount rate, inflation rate and mortality rates. Differences arising from actual experience or future changes in assumptions will be reflected in future years. The key assumptions made for 2016 are given in Note 20.

(c) Basis of consolidation

The consolidated accounts include the results of Greggs plc and its subsidiary undertakings for the 52 weeks ended 31 December 2016. The comparative period is the 52 weeks ended 2 January 2016.

(i) Subsidiaries

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

(ii) Associates

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

(iii) Transactions eliminated on consolidation

Intragroup balances, and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated accounts.

(d) Exceptional items

Exceptional items are defined as items of income and expenditure which are material and unusual in nature and which are considered to be of such significance that they require separate disclosure on the face of the income statement. Any future movements on items previously classified as exceptional will also be classified as exceptional.

Significant accounting policies continued

(e) Foreign currency

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

(f) Intangible assets

The Group's only intangible assets relate to software and the costs of its implementation which is measured at cost less accumulated amortisation and accumulated impairment losses. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in the income statement as incurred.

Amortisation is recognised in the income statement on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The estimated useful lives for the current and comparative periods are five years.

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

(g) Property, plant and equipment

(i) Owned assets

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

(ii) Subsequent costs

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

(iii) Depreciation

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

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

Freehold land is not depreciated.

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

(iv) Assets in the course of construction

These assets are re-categorised and depreciation commences when the assets are available for use.

(h) Investments

Non-current investments comprise investments in subsidiaries and associates which are carried at cost less impairment.

Current investments comprise fixed-term fixed-rate bank deposits where the term is greater than three months.

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of inventories includes expenditure incurred in acquiring the inventories and direct production labour costs.



(j) Cash and cash equivalents

Cash and cash equivalents comprises cash balances and call deposits with an original maturity of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(k) Impairment

The carrying amounts of the Group and Company's assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. Impairment reviews are carried out on an individual shop basis unless there are a number of shops in the same location, in which case the impairment review is based on the location.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement. Impairment losses recognised in prior years are assessed at each reporting date and reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

(l) Non-current assets held for sale

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

(m) Share capital and reserves**(i) Re-purchase of share capital**

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

(ii) Dividends

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

(iii) Distributable reserves

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

(n) Employee share ownership plan

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

(o) Employee benefits**(i) Short-term employee benefits**

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

(ii) Defined contribution plans

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

(iii) Defined benefit plans

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

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

Significant accounting policies continued

(o) Employee benefits continued

(iii) Defined benefit plans continued

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

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

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

(iv) Share-based payment transactions

The share option programme allows Group employees to acquire shares of the Company. The fair value of share options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date, using an appropriate model, taking into account the terms and conditions upon which the share options were granted, and is spread over the period during which the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

(v) Termination benefits

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

(p) Provisions

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

(i) Restructuring

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

(ii) Onerous leases

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

(iii) Dilapidations

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

(q) Revenue

(i) Retail sales

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

(ii) Franchise sales

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



(iii) Wholesale sales

Wholesale sales are recognised when goods are dispatched to customers.

(iv) Loyalty programme/gift cards

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

(r) Government grants

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

(s) Operating lease payments

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

(t) Finance income and expense

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

(u) Income tax

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

Current tax is the expected tax payable on the taxable profit for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years. Taxable profit differs from profit as reported in the income statement because some items of income or expense are taxable or deductible in different years or may never be taxable or deductible.

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

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

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

(v) Research and development

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

(w) IFRSs available for early adoption not yet applied

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

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

None of these standards and amendments is expected to have a significant impact on the accounts when they are adopted.

Although not yet endorsed by the EU, the Group is assessing the impact of IFRS 16 Leases (effective date 1 January 2019). The Group has not yet quantified the impact of the adoption of this standard, but anticipates that, in view of the significant number of property leases held by the Group, this will have a material effect on the accounts.

1. Segmental analysis

The Board is considered to be the 'chief operating decision maker' of the Group in the context of the IFRS 8 definition. In addition to its retail activities, the Group generates revenues from franchise and wholesale. However, these elements of the business are not sufficiently significant to be 'Reportable Segments' in the context of IFRS 8.

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

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

Geographical areas – all results arise in the UK.

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

2. Financial risk management

Credit risk

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

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

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

Liquidity risk

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

The Group operates with net current liabilities and is therefore reliant on the continued strong performance of the retail portfolio to meet its short-term liabilities. This is a well-established and proven business model. Any increase in short-term liquidity risk can be mitigated by reducing capital expenditure. The model has been tested in various scenarios for the Group's viability statement which is included in the strategic report on page 41. The Group had significant cash resources at the year end.

Market risk

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

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

Currency risk

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



Interest rate risk

The Group has low exposure to interest rate risk. Interest only arises on its bank deposits and overdrafts and the defined benefit pension scheme liability. Net financial expense in the year was £26,000 (2015: £85,000).

Equity price risk

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

Capital management

The Board defines capital as the equity of the Group. The Group has remained net cash positive with funding requirements met by cash generated from retail operations. The Board considers that it is not currently appropriate to take on structural debt given the inherent leverage of the leasehold shop estate and working capital requirements. The Board's policy on dividend levels is to pursue a progressive dividend policy that pays due regard to the growth of earnings per share over the medium term, the cash-generative nature of the business and the continuing determination to deliver value to shareholders. The Board would expect to return any material level of surplus capital to shareholders, likely by way of a special dividend.

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

Financial instruments**Group and Parent Company**

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

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

Financial assets and liabilities

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

Other than trade and other payables, the Group had no financial liabilities within the scope of IAS 39 as at 31 December 2016 (2015: £nil).

Fair values

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

Interest rate, credit and foreign currency risk

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

5. Personnel expenses

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

	2016 Number	2015 Number
Management	720	713
Administration	464	454
Production	3,028	3,029
Shop	16,369	15,651
	20,581	19,847

The aggregate costs of these persons were as follows:

	Note	2016 £'000	2015 £'000
Wages and salaries		301,105	280,559
Compulsory social security contributions		22,022	19,485
Pension costs – defined contribution plans	20	11,886	10,302
Equity-settled transactions (including employer's NI costs)	20	1,873	3,662
		336,886	314,008

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:

	2016 £'000	2015 £'000
Cost of sales	2,289	2,107
Distribution and selling costs	5,458	5,025
Administrative expenses	1,056	974
	8,803	8,106

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

	2016 £'000	2015 £'000
Salaries and fees	1,426	1,388
Taxable benefits	43	40
Annual bonus (including profit share)	1,004	1,056
Post-retirement benefits	181	183
Share-based payments	739	1,394
	3,393	4,061

The aggregate amount of gains made on exercise of share options by the Directors was £1,982,000 (2015: £1,195,000). The number of Directors in the defined contribution pension scheme and in the defined benefit pension scheme was two (2015: two).

6. Finance expense

	Note	2016 £'000	2015 £'000
Interest income on cash balances		173	198
Foreign exchange (loss)/gain		(49)	24
Net interest related to defined benefit obligation	20	(150)	(307)
		(26)	(85)

7. Profit attributable to Greggs plc

Of the Group profit for the year, £57,967,000 (2015: £57,548,000) is dealt with in the accounts of the Parent Company. The Company has taken advantage of the exemption permitted by section 408 of the Companies Act 2006 from presenting its own income statement.

8. Income tax expense

Recognised in the income statement

	2016 Excluding exceptional items £'000	2016 Exceptional items £'000	2016 Total £'000	2015 Total £'000
Current tax				
Current year	18,716	(767)	17,949	17,970
Adjustment for prior years	(946)	–	(946)	(530)
	17,770	(767)	17,003	17,440
Deferred tax				
Origination and reversal of temporary differences	(342)	(148)	(490)	(1,038)
Reduction in tax rate	239	–	239	(254)
Adjustment for prior years	397	–	397	(720)
	294	(148)	146	(2,012)
Total income tax expense in income statement	18,064	(915)	17,149	15,428

Reconciliation of effective tax rate

The tables below explain the differences between the expected tax expense calculated at the UK statutory rate of 20 per cent (2015: 20.25 per cent) and the actual tax expense for each year for both the total tax expense and the underlying tax expense, excluding the effect of exceptional items.

Total tax expense

	2016	2016 £'000	2015	2015 £'000
Profit before tax		75,142		73,028
Income tax using the domestic corporation tax rate	20.0%	15,028	20.25%	14,788
Expenses not deductible for tax purposes	0.9%	697	0.95%	698
Non-tax-deductible depreciation	2.1%	1,554	1.7%	1,263
Loss on disposal of non-tax-deductible assets	0.1%	93	0.1%	53
Impact of reduction in deferred tax rate	0.4%	326	(0.2%)	(124)
Adjustment for prior years	(0.7%)	(549)	(1.7%)	(1,250)
Total income tax expense in income statement	22.8%	17,149	21.1%	15,428

Underlying tax expense (excluding exceptional items)

	2016	2016 £'000	2015	2015 £'000
Profit before tax		80,319		73,028
Income tax using the domestic corporation tax rate	20.0%	16,064	20.25%	14,788
Expenses not deductible for tax purposes	0.9%	697	0.95%	698
Non-tax-deductible depreciation	1.8%	1,473	1.7%	1,263
Loss on disposal of non-tax-deductible assets	0.1%	80	0.1%	53
Impact of reduction in deferred tax rate	0.4%	299	(0.2%)	(124)
Adjustment for prior years	(0.7%)	(549)	(1.7%)	(1,250)
Total income tax expense in income statement	22.5%	18,064	21.1%	15,428



Reductions in the rate of corporation tax from 20 per cent to 19 per cent with effect from 1 April 2017 and from 19 per cent to 17 per cent with effect from 1 April 2020 were substantively enacted on 26 October 2015 and 6 September 2016 respectively. Any timing differences which reverse before 1 April 2017 will be charged/credited at 20 per cent, any timing differences which reverse between 1 April 2017 and 1 April 2020 will do so at 19 per cent and any timing differences which exist at 1 April 2020 will reverse at 17 per cent.

Tax recognised in other comprehensive income or directly in equity

	2016 Current tax £'000	2016 Deferred tax £'000	2016 Total £'000	2015 Total £'000
Debit/(Credit):				
Relating to equity-settled transactions	–	5,128	5,128	(5,242)
Relating to defined benefit plan – re-measurement (losses)/gains	–	(3,194)	(3,194)	885
	–	1,934	1,934	(4,357)

The deferred tax charge in the year relating to equity-settled transactions is in respect of share-based payments and arises primarily as a result of the fall in share price in the year and the stage of maturity of existing schemes.

9. Earnings per share

Basic earnings per share

Basic earnings per share for the 52 weeks ended 31 December 2016 is calculated by dividing profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the 52 weeks ended 31 December 2016 as calculated below.

Diluted earnings per share

Diluted earnings per share for the 52 weeks ended 31 December 2016 is calculated by dividing profit attributable to ordinary shareholders by the weighted average number of ordinary shares, adjusted for the effects of all dilutive potential ordinary shares (which comprise share options granted to employees) outstanding during the 52 weeks ended 31 December 2016 as calculated below.

Profit attributable to ordinary shareholders

	2016 Excluding exceptional items £'000	2016 Exceptional items £'000	2016 Total £'000	2015 Total £'000
Profit for the financial year attributable to equity holders of the Parent	62,255	(4,262)	57,993	57,600
Basic earnings per share	62.0p	(4.2p)	57.8p	57.3p
Diluted earnings per share	60.8p	(4.1p)	56.7p	55.8p

Weighted average number of ordinary shares

	2016 Number	2015 Number
Issued ordinary shares at start of year	101,155,901	101,155,901
Effect of own shares held	(710,295)	(551,314)
Weighted average number of ordinary shares during the year	100,445,606	100,604,587
Effect of share options on issue	1,921,344	2,616,364
Weighted average number of ordinary shares (diluted) during the year	102,366,950	103,220,951

10. Intangible assets

Group and Parent Company

	Software £'000	Assets under development £'000	Total £'000
Cost			
Balance at 4 January 2015	2,532	2,992	5,524
Additions	–	5,981	5,981
Balance at 2 January 2016	2,532	8,973	11,505
Balance at 3 January 2016	2,532	8,973	11,505
Additions	5,961	145	6,106
Transfers	7,968	(7,968)	–
Balance at 31 December 2016	16,461	1,150	17,611
Amortisation			
Balance at 4 January 2015	803	–	803
Amortisation charge for the year	454	–	454
Balance at 2 January 2016	1,257	–	1,257
Balance at 3 January 2016	1,257	–	1,257
Amortisation charge for the year	2,100	–	2,100
Balance at 31 December 2016	3,357	–	3,357
Carrying amounts			
At 4 January 2015	1,729	2,992	4,721
At 2 January 2016	1,275	8,973	10,248
At 3 January 2016	1,275	8,973	10,248
At 31 December 2016	13,104	1,150	14,254

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

11. Property, plant and equipment Group

	Land and buildings £'000	Plant and equipment £'000	Fixtures and fittings £'000	Assets under construction £'000	Total £'000
Cost					
Balance at 4 January 2015	127,963	123,619	250,724	278	502,584
Additions	70	9,265	45,510	10,890	65,735
Disposals	(1,034)	(3,120)	(28,527)	–	(32,681)
Balance at 2 January 2016	126,999	129,764	267,707	11,168	535,638
Balance at 3 January 2016	126,999	129,764	267,707	11,168	535,638
Additions	7,710	13,446	50,724	2,435	74,315
Disposals	(3,427)	(9,083)	(29,898)	–	(42,408)
Transfers	9,075	2,094	–	(11,169)	–
Balance at 31 December 2016	140,357	136,221	288,533	2,434	567,545
Depreciation					
Balance at 4 January 2015	34,092	79,762	126,011	–	239,865
Depreciation charge for the year	2,772	10,544	26,371	–	39,687
Impairment charge for the year	–	133	537	–	670
Impairment release for the year	–	–	(604)	–	(604)
Disposals	(845)	(2,789)	(24,509)	–	(28,143)
Balance at 2 January 2016	36,019	87,650	127,806	–	251,475
Balance at 3 January 2016	36,019	87,650	127,806	–	251,475
Depreciation charge for the year	2,949	11,250	29,254	–	43,453
Impairment charge for the year	436	–	624	–	1,060
Impairment release for the year	–	–	(572)	–	(572)
Disposals	(1,423)	(8,409)	(25,402)	–	(35,234)
Balance at 31 December 2016	37,981	90,491	131,710	–	260,182
Carrying amounts					
At 4 January 2015	93,871	43,857	124,713	278	262,719
At 2 January 2016	90,980	42,114	139,901	11,168	284,163
At 3 January 2016	90,980	42,114	139,901	11,168	284,163
At 31 December 2016	102,376	45,730	156,823	2,434	307,363

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



11. Property, plant and equipment continued

Parent Company

	Land and buildings £'000	Plant and equipment £'000	Fixtures and fittings £'000	Assets under construction £'000	Total £'000
Cost					
Balance at 4 January 2015	128,473	124,152	251,212	278	504,115
Additions	70	9,265	45,510	10,890	65,735
Disposals	(1,034)	(3,120)	(28,527)	–	(32,681)
Balance at 2 January 2016	127,509	130,297	268,195	11,168	537,169
Balance at 3 January 2016	127,509	130,297	268,195	11,168	537,169
Additions	7,710	13,446	50,724	2,435	74,315
Disposals	(3,427)	(9,083)	(29,898)	–	(42,408)
Transfers	9,075	2,094	–	(11,169)	–
Balance at 31 December 2016	140,867	136,754	289,021	2,434	569,076
Depreciation					
Balance at 4 January 2015	34,369	80,032	126,402	–	240,803
Depreciation charge for the year	2,772	10,544	26,371	–	39,687
Impairment charge for the year	–	133	537	–	670
Impairment release for the year	–	–	(604)	–	(604)
Disposals	(845)	(2,789)	(24,509)	–	(28,143)
Balance at 2 January 2016	36,296	87,920	128,197	–	252,413
Balance at 3 January 2016	36,296	87,920	128,197	–	252,413
Depreciation charge for the year	2,949	11,250	29,254	–	43,453
Impairment charge for the year	436	–	624	–	1,060
Impairment release for the year	–	–	(572)	–	(572)
Disposals	(1,423)	(8,409)	(25,402)	–	(35,234)
Balance at 31 December 2016	38,258	90,761	132,101	–	261,120
Carrying amounts					
At 4 January 2015	94,104	44,120	124,810	278	263,312
At 2 January 2016	91,213	42,377	139,998	11,168	284,756
At 3 January 2016	91,213	42,377	139,998	11,168	284,756
At 31 December 2016	102,609	45,993	156,920	2,434	307,956

Land and buildings

The carrying amount of land and buildings comprises:

	Group		Parent Company	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Freehold property	100,725	90,780	100,958	91,013
Long leasehold property	–	3	–	3
Short leasehold property	1,651	197	1,651	197
	102,376	90,980	102,609	91,213

12. Investments

Non-current investments

Parent Company

Shares in
subsidiary
undertakings
£'000

Cost	
Balance at 4 January 2015, 2 January 2016 and 31 December 2016	5,828
Impairment	
Balance at 4 January 2015, 2 January 2016 and 31 December 2016	841
Carrying amount	
Balance at 4 January 2015, 2 January 2016, 3 January 2016 and 31 December 2016	4,987

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

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

* Held indirectly.

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

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

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

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

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

13. Deferred tax assets and liabilities

Group

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Property, plant and equipment	–	–	(4,695)	(5,080)	(4,695)	(5,080)
Employee benefits	6,397	8,878	–	–	6,397	8,878
Short-term temporary differences	48	32	–	–	48	32
Tax assets/(liabilities)	6,445	8,910	(4,695)	(5,080)	1,750	3,830



NOTES TO THE CONSOLIDATED ACCOUNTS CONTINUED

13. Deferred tax assets and liabilities continued

Group continued

The movements in temporary differences during the year ended 2 January 2016 were as follows:

	Balance at 4 January 2015 £'000	Recognised in income £'000	Recognised in equity £'000	Balance at 2 January 2016 £'000
Property, plant and equipment	(7,054)	1,974	–	(5,080)
Employee benefits	4,034	487	4,357	8,878
Short-term temporary differences	481	(449)	–	32
	(2,539)	2,012	4,357	3,830

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

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

Parent Company

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Property, plant and equipment	–	–	(4,246)	(4,605)	(4,246)	(4,605)
Employee benefits	6,397	8,878	–	–	6,397	8,878
Short-term temporary differences	48	32	–	–	48	32
Tax assets/(liabilities)	6,445	8,910	(4,246)	(4,605)	2,199	4,305

The movements in temporary differences during the year ended 2 January 2016 were as follows:

	Balance at 4 January 2015 £'000	Recognised in income £'000	Recognised in equity £'000	Balance at 2 January 2016 £'000
Property, plant and equipment	(6,527)	1,922	–	(4,605)
Employee benefits	4,034	487	4,357	8,878
Short-term temporary differences	481	(449)	–	32
	(2,012)	1,960	4,357	4,305

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

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

14. Inventories

	Group and Parent Company	
	2016 £'000	2015 £'000
Raw materials and consumables	12,375	12,213
Work in progress	3,559	3,231
	15,934	15,444

15. Trade and other receivables

	Group and Parent Company	
	2016 £'000	2015 £'000
Trade receivables	12,250	9,496
Other receivables	4,741	4,513
Prepayments	13,722	13,638
	30,713	27,647

At 31 December 2016 trade receivables are shown net of an allowance for bad debts of £46,000 (2015: £31,000) arising in the ordinary course of business.

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

	Group and Parent Company	
	2016 £'000	2015 £'000
Not past due date	11,563	6,089
Past due 1–30 days	149	3,283
Past due 31–90 days	458	80
Past due over 90 days	80	44
	12,250	9,496

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

16. Cash and cash equivalents

	Group and Parent Company	
	2016 £'000	2015 £'000
Cash and cash equivalents	45,960	42,915

17. Trade and other payables

	Group		Parent Company	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Trade payables	49,482	42,405	49,482	42,405
Amounts owed to subsidiary undertakings	–	–	7,807	7,807
Other taxes and social security	7,143	5,912	7,143	5,912
Other payables	28,744	27,085	28,744	27,085
Accruals and deferred income	19,087	16,910	19,087	16,910
Deferred government grants	468	468	468	468
	104,924	92,780	112,731	100,587



18. Current tax liability

The current tax liability of £10,426,000 in the Group and the Parent Company (2015: Group and Parent Company £9,580,000) represents the estimated amount of income taxes payable in respect of current and prior years.

19. Non-current liabilities – other payables

	Group and Parent Company	
	2016 £'000	2015 £'000
Deferred government grants	5,599	6,071

The Group has been awarded five government grants relating to the extension of existing facilities and construction of new facilities. The grants, which have all been recognised as deferred income, are being amortised over the weighted average of the useful lives of the assets they have been used to acquire.

20. Employee benefits**Defined benefit plan****Scheme background**

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

The scheme is administered by a 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 2014 and showed a surplus. The Company is currently not required to pay contributions into the scheme.

Profile of the scheme

The defined benefit obligation includes benefits for deferred members and current pensioners. Broadly, two-thirds of the liabilities are attributable to deferred members and one-third to current pensioners.

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

Investment strategy

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

	Group and Parent Company	
	2016 £'000	2015 £'000
Defined benefit obligation	(131,373)	(102,918)
Fair value of plan assets	108,522	99,008
Net defined benefit liability	(22,851)	(3,910)

Liability for defined benefit obligation

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

	Group and Parent Company	
	2016 £'000	2015 £'000
Opening defined benefit obligation	102,918	106,201
Interest cost	3,871	3,751
Re-measurement losses/(gains):		
– changes in demographic assumptions	–	1,384
– changes in financial assumptions	29,387	(2,519)
– experience	(699)	(1,854)
Benefits paid	(4,104)	(4,045)
	131,373	102,918

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

	Group and Parent Company	
	2016 £'000	2015 £'000
Opening fair value of plan assets	99,008	97,683
Net interest on plan assets	3,721	3,444
Re-measurement gains	9,897	1,926
Benefits paid	(4,104)	(4,045)
Closing fair value of plan assets	108,522	99,008

The costs charged in the income statement are as follows:

	Group	
	2016 £'000	2015 £'000
Interest expense on net defined benefit liability	150	307

The amounts recognised in other comprehensive income are as follows:

	Group	
	2016 £'000	2015 £'000
Re-measurement (losses)/gains on defined benefit pension plan	(18,791)	4,915

Cumulative re-measurement gains and losses reported in the consolidated statement of comprehensive income since 28 December 2003, the transition date to adopted IFRSs, for the Group and the Parent Company are net losses of £40,010,000 (2015: net losses of £21,219,000).



20. Employee benefits continued**Defined benefit plan** continued

The fair value of the plan assets is as follows:

	Group and Parent Company	
	2016 £'000	2015 £'000
Equities – UK	40,239	40,320
– overseas	42,740	32,381
Bonds – corporate	13,747	16,547
– government	3,606	3,405
Absolute return funds	7,280	6,125
Cash and cash equivalents/other	910	230
	108,522	99,008

Principal actuarial assumptions (expressed as weighted averages):

	Group and Parent Company	
	2016	2015
Discount rate	2.70%	3.85%
Future salary increases	n/a	n/a
Future pension increases	1.7% – 2.45%	1.7% – 2.45%

Mortality assumption

Mortality in retirement is assumed to be in line with the S2PXA tables using CMI_2013 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 22.5 years (2015: 22.5 years) if they are male and 24.5 years (2015: 24.4 years) if they are female. Members currently aged 45 are expected to live for a further 24.4 years (2015: 24.3 years) from age 65 if they are male and for a further 26.5 years (2015: 26.4 years) from age 65 if they are female.

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

	Change in assumption	Impact on scheme liabilities
Discount rate	0.1% increase	reduction of £2.8m
Inflation	0.1% decrease	reduction of £1.7m
Mortality rates	1 year increase	increase of £5.2m

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

The next triennial valuation of the scheme is due to take place in April 2017. The outcome of that valuation will be considered by the Trustees and the Company and any requirement for future contributions to the scheme assessed at that time.

Defined contribution plans

The Company also operates defined contribution schemes for other eligible employees. The assets of the schemes are held separately from those of the Group. The pension cost represents contributions payable by the Group and amounted to £11,030,000 (2015: £10,302,000) in the year.

Share-based payments – Group and Parent Company

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

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

	Date of grant	Employees entitled	Exercise price	Number of shares granted	Vesting conditions	Contractual life
Executive Share Option Scheme 12	August 2006	Senior employees	407p	1,028,000	Three years' service and EPS growth of 3-5% over RPI on average over those three years	10 years
Executive Share Option Scheme 13	April 2008	Senior employees	457p	618,500	Three years' service and EPS growth of 3-5% over RPI on average over those three years	10 years
Executive Share Option Scheme 14	April 2009	Senior employees	356p	2,012,000	Three years' service and EPS growth of 3-7% over RPI on average over those three years	10 years
Performance Share Plan 3	March 2012	Senior executives	£nil	248,922	Three years' service, EPS annual average growth of 3-8% over RPI over those three years and TSR position relative to an appropriate comparator group	10 years
Savings Related Share Option Scheme 13	April 2012	All employees	468p	703,332	Three years' service	3.5 years
Executive Share Option Scheme 16	March 2013	Senior employees	480p	693,000	Three years' service and EPS growth of 3-7% over RPI on average over those three years	10 years
Transitional bonus share award	March 2013	Chief Executive	£nil	60,000	Continuous service of two and three years	3 years
Performance Share Plan 4	March 2013	Senior executives	£nil	305,592	Three years' service, EPS annual average growth of 3-8% over RPI over those three years and TSR position relative to an appropriate comparator group	10 years
Savings Related Share Option Scheme 14	April 2013	All employees	414p	699,989	Three years' service	3.5 years
Recruitment share award	February 2014	Senior executive	£nil	5,517	Continuous service of two years	2 years
Performance Share Plan 5	March 2014	Senior executives	£nil	224,599	Three years' service, EPS annual average growth of 1-4% over RPI over those three years and average annual ROCE of 15.5-17% over those three years	10 years



20. Employee benefits continued**Share-based payments – Group and Parent Company** continued

	Date of grant	Employees entitled	Exercise price	Number of shares granted	Vesting conditions	Contractual life
Executive Share Option Scheme 17	April 2014	Senior employees	500p	598,225	Three years' service and EPS growth of 1-4% over RPI on average over those three years	10 years
Savings Related Share Option Scheme 15	April 2014	All employees	465p	696,344	Three years' service	3.5 years
Executive Share Option Scheme 18	March 2015	Senior employees	1022p	298,045	Three years' service and EPS growth of 1-7% over RPI on average over those three years	10 years
Executive Share Option Scheme 18a	May 2015	Senior employee	1056p	3,285	Three years' service and EPS growth of 1-7% over RPI on average over those three years	10 years
Performance Share Plan 6	March 2015	Senior executives	£nil	146,174	Three years' service, EPS annual average growth of 1-7% over RPI over those three years and average annual ROCE of 19-21.5% over those three years	10 years
Savings Related Share Option Scheme 16	April 2015	All employees	818p	391,979	Three years' service	3.5 years
Performance Share Plan 7	March 2016	Senior executives	£nil	133,271	Three years' service, EPS annual average 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

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

	2016		2015	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
Outstanding at the beginning of the year	446p	4,033,559	369p	4,333,526
Lapsed during the year	662p	(106,112)	291p	(257,187)
Exercised during the year	324p	(1,137,020)	401p	(882,263)
Granted during the year	782p	730,981	749p	839,483
Outstanding at the end of the year	548p	3,521,408	446p	4,033,559
Exercisable at the end of the year	399p	582,327	365p	331,380

The options outstanding at 31 December 2016 have an exercise price in the range of £nil to £10.88 and have a weighted average contractual life of 5.6 years. The options exercised during the year had a weighted average market value of £10.93 (2015: £11.38).

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

	2016			2015			
	Performance Share Plan 7 March 2016	Executive Share Option Scheme 19 April 2016	Savings Related Share Option Scheme 17 April 2016	Performance Share Plan 6 March 2015	Executive Share Option Scheme 18 March 2015	Executive Share Option Scheme 18a May 2015	Savings Related Share Option Scheme 16 April 2015
Fair value at grant date	971p	177p	263p	971p	140p	145p	230p
Share price	1102p	1088p	1087p	1035p	1022p	1056p	1023p
Exercise price	nil	1088p	870p	nil	1022p	1056p	818p
Expected volatility	29.5%	29.4%	28.8%	23.9%	23.9%	23.8%	23.9%
Option life	3 years	3 years	3 years	3 years	3 years	3 years	3 years
Expected dividend yield	2.60%	2.63%	2.66%	2.13%	2.15%	2.08%	2.15%
Risk-free rate	0.55%	0.48%	0.60%	0.69%	0.64%	0.69%	0.76%

The expected volatility is based on historical volatility, adjusted for any expected changes to future volatility due to publicly available information. The historical volatility is calculated using a weekly rolling share price for the three-year period immediately prior to the option grant date.

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

	Group	
	2016 £'000	2015 £'000
Share options granted in 2012	–	91
Share options granted in 2013	134	696
Share options granted in 2014	639	665
Share options granted in 2015	820	605
Share options granted in 2016	401	–
Total expense recognised as employee costs	1,994	2,057



21. Provisions

	Group and Parent Company							
	2016 Dilapidations £'000	2016 Onerous leases £'000	2016 Employee- related £'000	2016 Total £'000	2015 Dilapidations £'000	2015 Onerous leases £'000	2015 Employee- related As restated (see page 82) £'000	2015 Total As restated (see page 82) £'000
Balance at start of year	3,343	2,289	1,605	7,237	3,456	3,155	–	6,611
Additional provision in the year:								
– ordinary	1,611	690	22	2,323	1,422	581	1,605	3,608
– exceptional	72	–	3,964	4,036	–	–	–	–
Utilised in year:								
– ordinary	(426)	(306)	(470)	(1,202)	(1,135)	(1,059)	–	(2,194)
– exceptional	(209)	(268)	(2,526)	(3,003)	–	–	–	–
Provisions reversed during the year:								
– ordinary	(586)	(200)	(143)	(929)	(400)	(388)	–	(788)
– exceptional	(562)	(386)	–	(948)	–	–	–	–
Balance at end of year	3,243	1,819	2,452	7,514	3,343	2,289	1,605	7,237
Included in current liabilities	2,899	866	2,323	6,088	2,632	1,043	590	4,265
Included in non-current liabilities	344	953	129	1,426	711	1,246	1,015	2,972
	3,243	1,819	2,452	7,514	3,343	2,289	1,605	7,237

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

Ordinary	2,757	1,034	1,014	4,805	2,158	850	1,605	4,613
Exceptional	486	785	1,438	2,709	1,185	1,439	–	2,624
	3,243	1,819	2,452	7,514	3,343	2,289	1,605	7,237

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.

The provision for onerous leases is held in respect of leasehold properties for which the Group is liable to fulfil rent and other property commitments for shops from which, either the Group no longer trades, or for which future trading cash flows are projected to be insufficient to cover these costs. Amounts have been provided for the shortfall between projected cashflows and property costs up to the lease expiry date or other appropriate estimated date. Included within the provision is £607,000 (2015: £704,000) in respect of possible recourse on leases which have been conditionally assigned.

Employee-related provisions are for redundancy costs arising from the supply chain restructuring described in Note 4 and employer's national insurance costs on future share option exercises.

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

22. Capital and reserves

Share capital

	Ordinary shares	
	2016 Number	2015 Number
In issue and fully paid at start and end of year – ordinary shares of 2p	101,155,901	101,155,901

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

Capital redemption reserve

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

Own shares held

Deducted from retained earnings is £8,335,000 (2015: £13,998,000) in respect of own shares held by the Greggs Employee Benefit Trust. The Trust, which was established during 1988 to act as a repository of issued Company shares, holds 878,235 shares (2015: 857,882 shares) with a market value at 31 December 2016 of £8,519,000 (2015: £11,273,000) which have not vested unconditionally in employees. During the year the Trust purchased 1,160,066 shares for an aggregate consideration of £12,399,000 and sold 1,139,713 shares for an aggregate consideration of £4,064,000.

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

Dividends

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

	2016 Per share pence	2015 Per share pence
2014 final dividend	–	16.0p
2015 interim dividend	–	7.4p
2015 special dividend	–	20.0p
2015 final dividend	21.2p	–
2016 interim dividend	9.5p	–
	30.7p	43.4p

The proposed final dividend in respect of 2016 amounts to 21.5 pence per share (£21,560,000). This proposed dividend is subject to approval at the Annual General Meeting and has not been included as a liability in these accounts.

	2016 £'000	2015 £'000
2014 final dividend	–	16,090
2015 interim dividend	–	7,463
2015 special dividend	–	20,161
2015 final dividend	21,326	–
2016 interim dividend	9,610	–
	30,936	43,714



23. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2016 £'000 Property	2016 £'000 Equipment	2016 £'000 Total	2015 £'000 Property	2015 £'000 Equipment	2015 £'000 Total
Less than one year	37,896	2,057	39,953	36,136	1,928	38,064
Between one and five years	82,492	3,672	86,164	73,881	2,588	76,469
More than five years	14,230	–	14,230	13,443	–	13,443
	134,618	5,729	140,347	123,460	4,516	127,976

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

The inception of the shop leases has taken place over a long period of time and many date back a significant number of years. They are combined leases of land and buildings. It is not possible to obtain a reliable estimate of the split of the fair values of the lease interest between land and buildings at inception. Therefore, in determining lease classification the Group evaluated whether both parts are clearly an operating lease or a finance lease. Firstly, title does not pass for the land or buildings. Secondly, because the rent paid to the landlord for the buildings is increased to market rent at regular intervals, and the Group does not participate in the residual value of the land or buildings it is judged that substantially all the risks and rewards of the land and buildings are with the landlord. Based on these qualitative factors it is concluded that the leases are operating leases.

24. Capital commitments

During the year ended 31 December 2016, the Group entered into contracts to purchase property, plant and equipment and intangible assets for £1,268,000 (2015: £2,010,000). These commitments are expected to be settled in the following financial year.

25. Related parties**Identity of related parties**

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

Trading transactions with subsidiaries – Group

There have been no transactions between the Company and its subsidiaries or associates during the year (2015: £nil).

Trading transactions with subsidiaries – Parent Company

	Amounts owed to related parties		Amounts owed by related parties	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Dormant subsidiaries	7,807	7,807	–	–

The Greggs Foundation is also a related party and during the year the Company made a donation to the Greggs Foundation of £860,000 (2015: £700,000), as well as passing on £715,000 (2015: £369,000) raised from the sale of carrier bags and £193,000 (2015: £115,000) raised from the sale of products.

Transactions with key management personnel

The Directors are the key management personnel of the Group. The Company has been notified of the following interests of the Directors who served during the year (including those of their connected persons but excluding interests in shares pursuant to unexercised share options) in the share capital of the Company as follows:

	Ordinary shares of 2p (Beneficial interest)		Ordinary shares of 2p (Trustee holding with no beneficial interest)	
	2016 (or date of cessation if earlier)	2015 (or date of appointment if later)	2016 (or date of cessation if earlier)	2015 (or date of appointment if later)
Roger Whiteside	135,563	75,998	—	—
Richard Hutton	78,094	77,923	400,000	400,000
Raymond Reynolds	64,484	59,244	—	—
Ian Durant (Non-Executive)	11,700	11,700	—	—
Allison Kirkby (Non-Executive)	1,600	1,600	—	—
Helena Ganczakowski (Non-Executive)	1,000	1,000	—	—
Peter McPhillips (Non-Executive)	1,000	500	—	—
Sandra Turner (Non-Executive)	1,000	1,000	—	—

Details of Directors' share options, emoluments, pension benefits and other non-cash benefits can be found in the Directors' remuneration report on pages 56 to 72. Summary information on remuneration of key management personnel is included in Note 5.

There have been no changes since 31 December 2016 in the Directors' interests noted above.

26. Events after the reporting period

As noted in the Chief Executive's report on page 14, in January 2017 the Company communicated further restructuring proposals to staff relating to the previously announced investment in its supply chain. This communication included the planned impact of consolidating manufacturing operations and announced a consultation with trade unions and employee representatives over the detail of the proposals.

The total one-off exceptional costs of this major change programme are expected to be in the region of £25 million. This includes £6.4 million charged in 2016 (see Note 4) and an expected further charge of £12 million in 2017, of which £6 million will be a cash cost.



TEN-YEAR HISTORY

	2007	2008	2009 ¹	2010 ¹	2011	2012 (as restated) ³	2013	2014 (as restated) ^{1,4}	2015 ¹	2016
Turnover (£'m)	586.3	628.2	658.2	662.3	701.1	734.5	762.4	806.1	835.7	894.2
Total sales growth (%)	6.4%	7.1%	4.8%	0.6%	5.8%	4.8%	3.8%	5.7%	3.7%	7.0%
Company-managed shop like-for-like sales growth (%)	5.3%	4.4%	0.8%	0.2%	1.4%	(2.7%)	(0.8%)	4.5%	4.7%	4.2%
Earnings before interest and tax (EBIT) excluding exceptional items (£'m)	47.7	44.3	48.4	52.4	53.0	51.3	41.5	58.1	73.1	80.3
EBIT margin excluding exceptional items (%)	8.1%	7.1%	7.4%	7.9%	7.6%	7.0%	5.4%	7.2%	8.7%	9.0%
Exceptional (charge)/credit (£'m)	2.2	4.3	–	–	7.4	1.4	(8.1)	(8.5)	–	(4.3)
Profit on ordinary activities including exceptional items and before tax (£'m)	51.1	49.5	48.8	52.5	60.5	52.4	33.2	49.7	73.0	75.1
Diluted earnings per share excluding exceptional items (pence)	32.0	30.6	34.0	37.3	38.8	38.3	30.6	43.4	55.8	60.8
Dividend per share (pence) ²	14.0	14.9	16.6	18.2	19.3	19.5	19.5	22.0	48.6 ⁵	31.0
Total shareholder return (%)	12%	(22%)	29%	11%	13%	(6%)	1%	70%	87.1%	(23.4%)
Capital expenditure (£'m)	42.3	40.8	30.3	45.6	59.1	46.9	47.6	48.9	71.7	80.4
Return on capital employed	29.6%	26.2%	25.9%	25.9%	24.4%	21.3%	16.4%	22.4%	26.8%	28.1%
Number of shops in operation at year end	1,368	1,409	1,419	1,487	1,571	1,671	1,671	1,650	1,698	1,764

1 2009 and 2014 were 53 week years, impacting on total sales growth for that year and the year immediately following.

2 All years prior to 2009 adjusted to take account of the ten for one share split which took place during 2009.

3 Restated following the adoption of IAS 19 (Revised).

4 Restated to include revenue in respect of franchise fit-out costs.

5 Includes a special dividend of 20p.

All of the non-GAAP measures detailed above (excluding company-managed like-for-like sales growth) can be calculated from the GAAP measures included in the annual accounts.

NOTES

FINANCIAL CALENDAR

Announcement of results and dividends

Half year	Early August
Full year	Early March

Dividends

Interim	Mid-October
Final	26 May 2017

Annual report posted to shareholders	Late March
Annual General Meeting	19 May 2017

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